IMPORTANT

***If you are in any doubt** about any of the contents of this prospectus, you should obtain independent professional advice.*

This prospectus supersedes the prospectus of the Company dated and issued on 12th May, 2005. The previous share offer made pursuant to the prospectus dated 12th May, 2005 has lapsed and has no further effect. You should only refer to, and rely on, the information contained in this prospectus and the related Application Forms in connection with the Share Offer.

建福集團控股有限公司

KENFORD GROUP HOLDINGS LIMITED

(incorporated in the Cayman Islands with limited liability)

LISTING ON THE MAIN BOARD OF THE STOCK EXCHANGE OF HONG KONG LIMITED BY WAY OF PLACING AND PUBLIC OFFER OF SHARES

Number of Offer Shares	**:**	**100,000,000 Shares (with one Warrant for every four Offer Shares)**
Number of Placing Shares	**:**	**90,000,000 Shares (subject to reallocation) (with one Warrant for every four Placing Shares)**
Number of Public Offer Shares	**:**	**10,000,000 Shares (subject to reallocation) (with one Warrant for every four Public Offer Shares)**
Offer Price	**:**	**HK$0.55 per Offer Share (with Warrants)**
Nominal value	**:**	**HK$0.001 each**
Stock code	**:**	**464**
Warrant code	**:**	**452**

Sponsor and Lead Manager

博大資本國際有限公司
Partners Capital International Limited

Sponsor

SinoPac Securities (Asia) Limited

Bookrunner

博大證券有限公司
Partners Capital Securities Limited

Underwriters

Kim Eng Securities (Hong Kong) Limited
South China Securities Limited
G.K. Goh Securities (H.K.) Limited
Christfund Securities Limited
Hong Tong Hai Securities Limited
Guotai Junan Securities (Hong Kong) 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, together with the documents specified in the paragraph headed "Documents delivered to the Registrar of Companies in Hong Kong" in Appendix IX 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 other documents referred to above.

Prior to making an investment decision, prospective investor should carefully consider all the information set out in this prospectus, including the risk factors set out in the section headed "Risk factors" of this prospectus.

The obligations of the Underwriters under the Underwriting Agreement are subject to termination by the Bookrunner and the Lead Manager (on behalf of the Underwriters) if certain events arise prior to 8:00 a.m. (Hong Kong time) on the Listing Date. Such events are set out in the paragraph headed "Grounds for termination" in the section headed "Underwriting" in this prospectus. Potential investors should refer to that section for further details.

31st May, 2005

The Company will issue a separate announcement if there is any change in the following expected timetable of the Share Offer.

	2005
Application lists of the Public Offer open *(Notes 1 and 2)*	11:45 a.m. on Monday, 6th June
Latest time to lodge **WHITE** and **YELLOW** Application Forms	12:00 noon on Monday, 6th June
Application lists of the Public Offer close *(Notes 1 and 2)*	12:00 noon on Monday, 6th June
Announcement of the level of indication of interest in the Placing, the results of applications in respect of the Public Offer and basis of allotment of the Public Offer Shares (with Warrants) and the number of Offer Shares (with Warrants) (if any) reallocated from the Public Offer to the Placing or from the Placing to the Public Offer (where appropriate) to be published in The Standard (in English) and the Hong Kong Economic Times (in Chinese) and the website at *www.hkex.com.hk* on or before	Monday, 13th June
Despatch and/or collection of Share certificate(s), Warrant certificate(s) and/or refund cheque(s) on or before *(Note 3)*	Monday, 13th June
Deposit of Share certificates and Warrant certificates into CCASS on or before *(Note 4)*	Monday, 13th June
Dealings in the Shares and the Warrants on the Stock Exchange to commence on	Thursday, 16th June

Notes:

1. All times refer to Hong Kong local time. Details of the structure of the Share Offer, including its conditions, are set out in the section headed "Structure of the Share Offer" in this prospectus.

2. If there is a "black" rainstorm warning or a tropical cyclone warning signal number 8 or above in force in Hong Kong at any time between 9:00 a.m. and 12:00 noon on Monday, 6th June, 2005, the application lists will not open on that day. Further information is set out in the paragraph headed "Effect of bad weather on the opening of the application lists" under the section headed "How to apply for the Public Offer Shares (with Warrants)" in this prospectus.

3. Applicants who apply for 1,000,000 Public Offer Shares (with Warrants) or more on WHITE Application Forms and have indicated in their application forms that they wish to collect refund cheques (where applicable), Share certificates and Warrant certificates in person from the Company's branch share registrar and warrant registrar, Computershare Hong Kong Investor Services Limited, may do so in person from 9:00 a.m. to 1:00 p.m. on Monday, 13th June, 2005. Identification and authorization documents (where applicable) acceptable to Computershare Hong Kong Investor Services Limited must be produced at the time of collection. Uncollected refund cheques (where applicable), Share certificates and Warrant certificates will be despatched by ordinary post at the applicants' own risk to the addresses specified in the relevant application forms. Further information is set out in the paragraph headed "Collection/ posting of Share certificate(s), Warrant certificate(s), refund cheque(s) and deposit of certificate(s) into CCASS" in the section headed "How to apply for the Public Offer Shares (with Warrants)".

4. Applicants who apply on YELLOW Application Forms for 1,000,000 Public Offer Shares (with Warrants) or more may collect their refund cheques, if any, in person but may not elect to collect their Share certificates and Warrant certificates, which will be deposited into CCASS for credit to their designated CCASS participants' stock accounts or investor participant stock accounts, as appropriate. The procedure for collection of refund cheques for yellow application form applicants is the same as that for white application form applicants.

5. Shares certificates and Warrant certificates will only become valid certificates of title provided that the Share Offer has become unconditional and that the Underwriting Agreement has not been terminated in accordance with its terms before 8:00 a.m. (Hong Kong time) on Thursday, 16th June, 2005.

   No temporary documents of title will be issued.

CONTENTS

You should rely only on the information contained in this prospectus and the Application Forms to make your investment decision. The Company has not authorised anyone to provide you with information that is different from the information contained in this prospectus and the related application forms. Any information or representation not made in this prospectus and the related application forms must not be relied on by you as having been authorised by the Company, the Sponsors, the Bookrunner, the Underwriters, their respective directors or any other person involved in the Share Offer.

CONTENTS

This summary aims to give you an overview of the information contained in this prospectus. As this is a summary, it does not contain all the information that may be important to you. You should read the whole prospectus before you decide to invest in the Offer Shares (with Warrants).

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

BUSINESS OVERVIEW

The Group is principally engaged in the design, manufacture and sale of a wide range of electrical hair care products (including hair dryers and hair styling apparatus), electrical health care products (including facial saunas, foot spas and massagers) and other small household electrical appliances (including vacuum cleaners and citrus juicers/mixers).

Endowed with a renowned multinational customer base, the Group's products include those manufactured for sale under brand names such as "Remington", "Morphy Richards", "Nicky Clarke", "Vidal Sassoon", "Ufesa", "Unix" and "Princess". As at the Latest Practicable Date, the Enlarged Group's products were sold on ODM, OEM and OBM basis.

For each of the three years ended 31st March, 2004 and the nine months ended 31st December, 2004, the sale of electrical hair care products accounted for approximately 72%, 75%, 86% and 93% of the turnover of the Group respectively. The Group has been focusing on the high-end segment of the electrical hair care products market. To this end, the Group has launched high-end professional electrical hair care products which were once more commonly used in salons for the mass household markets (particularly in Europe).

The Group's production facilities are located in Changping Town, Dongguan City, Guangdong Province, the PRC. During the Track Record Period, the Group's finished products were distributed and sold overseas. Products sold to Europe, North and South America and Asia respectively accounted for approximately 73%, 9% and 9% of the turnover of the Group for the year ended 31st March, 2004. As at the Latest Practicable Date, taking into account the workers employed by 東莞市常平鎮外經實業公司 (Dongguan Changping Town Foreign Economic Industrial Company) pursuant to the DG Processing Agreement, there was a workforce of around 2,707 staff working for the Group.

COMPETITIVE STRENGTHS

The Directors believe that the Group has the following principal strengths:–

- **Renowned and wide ranging customer base**

The Group has built up a solid and renowned customer base, some of which represent popular multinational, European or Asian brandnames such as “Remington”, “Morphy Richards”, “Nicky Clarke”, “Vidal Sassoon”, “Ufesa”, “Unix” and “Princess”. The solid and renowned customer base together with established customer relationships provide a concrete foundation for the Group to further expand its business and to achieve economies of scale. The wide range of customer base based in different geographical regions also enables the Group to reduce concentration risk of its sales exposure to any particular customer or any material seasonal variation in sales.

- **Registered patents and designs for a diversified product range**

Endowed with over a decade of industry experience and market awareness, the engineering and design department of the Group has been keeping itself abreast of market changes and has a track record for designing, researching and developing an innovative and trendy array of products on a proactive basis. This can be demonstrated by the 99 successful registrations of patents and designs in Hong Kong, the PRC and overseas by the Group which have been built-in to its existing products. The Group also offers a diversified range of products with different value-added features or functionalities to meet the demands of customers of different demographical origins or consumer preferences.

- **Stringent quality control**

As a consumer product manufacturer, the Group has a strong commitment to quality control. From the very beginning of raw material procurement to the packaging of finished products, the Group imposes intensive quality checks and controls along the whole production line of the Group’s manufacturing processes. The quality checks and controls include incoming checks, online checks, random checks and technical checks, which are strictly carried out by the operation department of the Group, as well as by the representatives of the Group’s customers as the case may be. The quality management system of the DG Kenford Factory, a factory processing electrical appliances for the Group pursuant to the DG Processing Agreement was accredited with the ISO9001 certificate in October 2001. The Group believes that product quality is of prime concern to the Group’s multinational customers. The Group considers that continual adherence to stringent quality control procedures is one of the most vital elements in maintaining long-term business relationships with its multinational customers.

- **Experienced management with expertise in corporate governance and financial risk control**

Mr. Lam WM and Mr. Tam, both being executive Directors, have solid experience in the electrical appliances industry of not less than 20 years. Mr. Lam WM and Mr. Tam are primarily responsible for (i) the sales and marketing affairs and (ii) the production affairs of the Group, respectively. Mr. Chan, being another executive Director, possesses professional qualifications and extensive experience in the banking and finance industry. Mr. Chan is an associate member of both the Chartered Institute of Bankers (UK) and the Hong Kong Institute of Bankers. Mr. Chan is also a fellow member of both The Hong Kong Institute of Company Secretaries and The Institute of Chartered Secretaries and Administrators, United Kingdom. Mr. Chan was also a council member of The Hong Kong Institute of Company Secretaries from August 2000 to July 2002. Given the expertise and background of Mr. Chan, the Group is positioned to be managed with particular focus on corporate governance (including regulatory compliance) and financial risk control (including credit assessment).

- **Decade of operating history and established presence in the industry**

The Group has been engaged in the design, manufacture and sale of small electrical appliances under the management of Mr. Lam WM and Mr. Tam. With over a decade of operating history and industry experience under the management of Mr. Lam WM and Mr. Tam, the Group has established its presence in the market for providing quality electrical appliances to customers. In particular, the Group enjoys not less than three years of business relationships with its five largest customers for the year ended 31st March, 2004, out of which three have maintained no less than five years' business relationship with the Group. In view of more than a decade of established history and the standing built up in the industry, the Directors believe that the Group is well positioned to grasp new business opportunities and capture new quality customers.

TRADING RECORD

The following is a summary of the combined results of the Group for each of the three years ended 31st March, 2004 and the nine months ended 31st December, 2003 and 2004 (extracted from the accountants' report, the text of which is set out in Appendix I to this prospectus). The combined results have been prepared on the basis of presentation as set out in the accountants' report, the text of which is set out in Appendix I to this prospectus.

		Year ended 31st March,			Nine months ended 31st December,	
		2002	**2003**	**2004**	**2004**	**2003**
	Notes	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
						(Unaudited)
Turnover	*1*	290,323	284,882	301,634	383,654	239,147
Cost of sales		(241,621)	(215,111)	(232,979)	(295,981)	(180,828)
Gross profit		48,702	69,771	68,655	87,673	58,319
Other revenue	*2*	8,761	4,820	6,790	5,878	5,482
Impairment loss on land and buildings		–	–	(583)	–	–
Loss on disposals of property, plant and equipment		–	(3,473)	–	–	–
Selling and distribution expenses		(9,925)	(9,438)	(8,356)	(6,647)	(6,461)
General and administrative expenses		(31,975)	(26,330)	(27,890)	(22,138)	(20,573)
Profit from operations		15,563	35,350	38,616	64,766	36,767
Finance costs		(6,406)	(5,054)	(3,495)	(2,716)	(2,652)
Revaluation deficit	*3*	–	(2,020)	–	–	–
Gain on disposal of subsidiaries	*4*	–	20,504	–	–	–
Gain on disposal of associates	*5*	–	790	22	–	22
Share of profits and losses of associates		36	(802)	(11)	–	(11)
Profit before taxation		9,193	48,768	35,132	62,050	34,126
Taxation		(742)	364	(4,056)	(5,132)	(3,909)
Net profit attributable to shareholders		8,451	49,132	31,076	56,918	30,217
Dividends		–	2,828	80,000	10,000	–
Basic earnings per share *(cents)*	*6*	2.82	16.38	10.36	18.97	10.07

Notes:

1. Turnover represents revenue generated from sales of electrical hair care products, electrical health care products and other small household electrical appliances.

2. Other Revenue

	Year ended 31st March,			Nine months ended 31st December,	
	2002	**2003**	**2004**	**2004**	**2003**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
					(Unaudited)
Reimbursement of mould costs	7,327	2,159	2,291	2,356	1,583
Commissions income	170	1,899	3,784	2,563	3,304
Gain on disposals of property, plant and equipment	–	–	146	–	146
Exchange gain, net	232	–	–	–	–
Rental income from investment properties	316	252	–	–	–
Interest income	74	133	187	75	142
Sample sales	88	85	24	45	23
Sundry income	554	292	358	839	284
	8,761	4,820	6,790	5,878	5,482

3. Revaluation deficit represents the downward revaluation of the investment properties held by the then subsidiaries of Kenford, Smart Host International Development Limited and Union Nice Limited to their open market values of HK$3,880,000 and HK$4,200,000, respectively.

4. Gain on disposal of subsidiaries represents the gain made upon disposal of the then subsidiaries of Kenford, Smart Host International Development Limited and Union Nice Limited at the consideration of HK$2 each.

5. Gain on disposal of associates represents the gain made upon the disposal of its 50% interest in KARIO in March 2003 and 50% interest in Unix Electronics (HK) Limited in December 2003 at the consideration of HK$1 and HK$1,000,000, respectively.

6. The calculation of basic earnings per share is based on the Group's combined net profit attributable to shareholders for the relevant periods and on the assumption that 300,000,000 Shares are in issue and issuable, comprising 100,000,000 Shares in issue as at the date of this prospectus and 200,000,000 Shares to be issued pursuant to the Capitalisation Issue as set out in Appendix VIII to this prospectus.

According to paragraph 27 of Part I of the Third Schedule to the Companies Ordinance, the Company is required to include in this prospectus a statement as to the gross trading income or sales turnover of the Group and the KARIO Group during the three financial years immediately preceding the issue of this prospectus.

According to paragraph 31 of Part II of the Third Schedule to the Companies Ordinance, the Company is required to include in this prospectus a report by the auditors and reporting accountants of the Company with respect to the financial results of the Group and the KARIO Group for each of the three financial years immediately preceding the issue of this prospectus.

Pursuant to Rule 4.04(1) and Rule 4.04(2) of the Listing Rules, the Company is required to include in this prospectus the accountants' reports of the Group and the KARIO Group covering the combined results of the Group and the consolidated results of the KARIO Group in respect of each of the three financial years immediately preceding the issue of this prospectus.

The accountants' reports of the Group and the KARIO Group for each of the three years ended 31st March, 2004 and the nine months ended 31st December, 2003 and 2004 have been prepared and are set out in Appendix I and Appendix II respectively to this prospectus. However, as this prospectus has been issued within a short period of time after 31st March, 2005, the accountants' reports have not been prepared for the full year ended 31st March, 2005 as it would be unduly burdensome for the Company to do so and impossible for the audited results for the year ended 31st March, 2005 to be finalised in such a short period of time.

In these circumstances, an application was made to the SFC for a certificate of exemption from strict compliance with paragraphs 27 and 31 of the Third Schedule to the Companies Ordinance in relation to the inclusion of the accountants' report of the Group and the KARIO Group for the full year ended 31st March, 2005 in this prospectus on the ground that it would be unduly burdensome for the Company to do so and a certificate of exemption has been granted by the SFC under section 342A(1) of the Companies Ordinance.

An application has also been made to the Stock Exchange for a waiver from strict compliance with Rule 4.04(1) and Rule 4.04(2) of the Listing Rules, and such waiver has been granted by the Stock Exchange.

The Directors have confirmed that they have performed sufficient due diligence on the Group and the KARIO Group to ensure that, save as disclosed herein, up to the date of issue of this prospectus, there has been no material adverse change in the financial position of the Group and the KARIO Group since 31st December, 2004, and there is no event which would materially affect the information respectively shown in the "Accountants' report" as set out in Appendix I to this prospectus and "Additional financial information of KARIO" in Appendix II to this prospectus.

FUTURE PLANS

The vision of the Group is to become a leading electrical appliances manufacturer in the PRC in terms of production scale and product quality. It is also the mission of the Group to attain total customer satisfaction and maintain a win-win relationship with customers on a long-term basis. In line with the Group's objectives, the Group strives to offer a wide array of innovative or tailored products with consistently high quality to its existing and new customers.

Since 31st December, 2004, being the date to which the latest audited accounts of the Group were made up, the Group continues to focus on offering high-end or newly developed electrical hair care products, which were once more commonly used in salons, for the mass household markets (particularly in Europe). To this end, the Group continues to launch new kinds of hair styling apparatus. Based on the sales orders received so far, the Directors remain positive on the financial and trading prospects of the Group in the near term, barring any unforeseen adverse circumstances.

To achieve its objectives, the Group has formulated the following business strategies:

- **Expansion of production capacity and capability**

  In line with the Group's business expansion plan, the Group plans to upgrade and expand its existing production facilities for further growth and development. In particular, the Group plans to purchase and install new equipment in (i) the DG Kenford Factory and/or (ii) the factory of DG KARIO which may be relocated to a piece of land of about 6,390 sq.m. situated adjacent to it or at some other location to be determined by the Group so as to increase its overall production capacity.

  With a view to achieving greater economies of scale and thereby enhancing the competitiveness of its products in the marketplace, the Group will also devise effective management control over or re-engineer its production processes in order to optimise its production efficiency and to improve the quality of its existing products, after commissioning the new production equipment.

- **Penetration and further expansion into new and existing geographical markets**

Leveraging on the existing multinational customer base of the Group, the Group plans to establish business relationships with more overseas customers with a view to broadening the Group's customer base and the market coverage of the Group's products.

For the purpose of penetration into the Group's new or developing markets such as the United States and the PRC, and for the purpose of further expansion into the Group's existing European markets, the Group intends to strengthen its sales force by way of recruiting new sales and marketing staff to solicit potential customers for the Group.

- **Marketing and promotion of the Group's own branded products**

With a view to leveraging on the product development capability of the Group's engineering, research and development team, and for the purpose of enhancing the long-term growth potential of the Group, it is the Directors' intention to actively develop and pursue its OBM business, pursuant to which the Group's products are manufactured and sold under its own brand name "KARIO".

After the Track Record Period, the Group has acquired the KARIO Group and tended to manufacture and sell more of its products on an OBM basis through the KARIO Group. Subject to market conditions, the Group plans to launch various marketing and promotional activities as applicable to its own OBM products.

- **Strengthening the engineering, research and development capability**

The Directors envisage that the possession of strong product development capability is the key to enabling the Group to continue with the launching of a new and innovative array of products.

In this connection, the Group plans to reinforce its product development capability by way of recruiting more engineers. With a stronger engineering, research and development team, the Group will be better positioned to expand the range of product models and lines available for its ODM and OBM customers.

- **Building up a pool of intellectual property rights for its products**

The Directors consider that the success of the Group relies, to a certain extent, on whether it is able to successfully register and enforce protection for the intellectual property rights in relation to its product designs.

In line with the expansion of both the product range and the target markets of the Group, the Directors plan to commit more resources to building up a pool of intellectual property rights for its new products and in its new markets. The Group intends to patent or register more of its product designs, trademarks, and production technological know-how in a number of target markets including Europe, the United States and the PRC.

- **Growth through strategic alliances, joint ventures, acquisitions and/or cooperative arrangements**

In achieving the vision of the Group to become a leading electrical appliances manufacturer in the PRC, the Directors may from time to time pursue opportunities to develop the Group's business through strategic alliances, joint ventures, acquisitions and/or co-operative arrangements with overseas or domestic electrical industry players as appropriate.

The Directors believe that any suitable measures between the Group and the industry players (such as electrical manufacturer counterparts or brand owners/licensors) as aforesaid could combine the strength, experience and contacts of mutual parties, thereby bringing in synergistic benefits to the Group in the relevant target markets and enabling the Group to strengthen its position in the electrical appliances industry.

USE OF PROCEEDS

The Share Offer will provide the necessary funds to the Group for meeting its development needs. Based on the Offer Price of HK$0.55, the net proceeds from the Share Offer, after deduction of the underwriting fees and other related expenses payable by the Company in relation to the Share Offer, are estimated to be approximately HK$34 million. It is expected that the net proceeds of the Share Offer will be applied as follows:

- as to approximately HK$29 million for expansion of the production capacity and capability of the Group (out of which as to approximately HK$20 million will be used for construction of new plant, and as to approximately HK$9 million will be used for acquisition of new machineries);

- as to approximately HK$2 million for penetration and further expansion into new and existing geographical markets such as the United States and the PRC (including the marketing and promotion of the Group's own branded products);

- as to approximately HK$2 million for strengthening the engineering, research and development capability of the Group (including the building up of a pool of intellectual property rights for its products); and

- as to the balance of approximately HK$1 million for additional general working capital of the Group (such as purchase of raw materials and payment of expenses).

To the extent that the net proceeds of the Share Offer are not immediately required for the above purposes, it is the present intention of the Directors that such net proceeds will be placed in short-term interest-bearing deposits with licensed banks and authorised financial institutions in Hong Kong.

OFFER STATISTICS

Estimated combined profit after taxation and minority interests but before extraordinary items *(Note 1)*	Not less than HK$57 million
Unaudited pro forma estimated earnings per Share *(Note 2)*	HK$0.143
Offer Price per Share	HK$0.55
Market capitalisation of Shares *(Note 3)*	HK$220 million
Estimated price/earnings multiple on a pro forma basis *(Note 4)*	3.8 times
Unaudited pro forma adjusted net tangible assets value per Share *(Note 5)*	HK$0.35

Notes :

1. The bases on which the estimated combined profit after taxation and minority interests but before extraordinary items for the year ended 31st March, 2005 has been prepared are set out in Appendix IV to this Prospectus.

2. The calculation of the unaudited pro forma estimated earnings per Share is based on (i) the estimate of the combined profit after tax and minority interests but before extraordinary items of the Group for the year ended 31st March, 2005 prepared by the Directors, which in turn is based on the audited financial statements of the Group for the nine months ended 31st December, 2004 and unaudited management accounts for the three months ended 31st March, 2005; and (ii) a total of 400,000,000 Shares in issue assuming the Share Offer and the Capitalisation Issue had been completed on 1st April, 2004 but taking no account of any Shares which may fall to be issued upon the exercise of any options which have been granted under the Pre-IPO Share Option Scheme or may be granted under the Share Option Scheme or any Shares which may fall to be allotted and issued upon the exercise of the subscription rights attaching to the Warrants or which may be allotted and issued or repurchased by the Company pursuant to the general mandates for the issue or repurchase of Shares granted to the Directors referred to in the paragraph headed "Written resolutions of all the Shareholders passed on 27th May, 2005" in Appendix VIII to this prospectus.

   The Directors are not aware of any extraordinary items which have arisen or are likely to arise during the year ended 31st March, 2005. The estimate has been prepared on the basis of the accounting policies consistent in all material aspects with those currently adopted by the Group as summarised in the accountants' report, the text of which is set out in Appendix I to this prospectus.

3. The calculation of market capitalisation is based on the Offer Price and 400,000,000 Shares expected to be in issue immediately after completion of the Share Offer and the Capitalisation Issue but takes no account of any Shares which may fall to be issued upon the exercise of any options which have been granted under the Pre-IPO Share Option Scheme or may be granted under the Share Option Scheme or any Shares which may fall to be allotted and issued upon the exercise of the subscription rights attaching to the Warrants or which may be allotted and issued or repurchased by the Company pursuant to the general mandates for the issue or repurchase of Shares granted to the Directors referred to in the paragraph headed "Written resolutions of all the Shareholders passed on 27th May, 2005" in Appendix VIII to this prospectus.

4. The calculation of the estimated price/earnings multiple on a pro forma basis is based on the unaudited pro forma estimated earnings per Share at the Offer Price of HK$0.55.

5. The unaudited pro forma adjusted net tangible assets value per Share has been arrived at after the adjustments referred to in the paragraph headed "Unaudited pro forma adjusted net tangible assets" in Appendix III to this prospectus and on the basis of 400,000,000 Shares in issue and to be issued as mentioned in this prospectus, but takes no account of any Shares which may fall to be issued upon the exercise of any options which have been granted under the Pre-IPO Share Option Scheme or may be granted under the Share Option Scheme or any Shares which may fall to be allotted and issued upon the exercise of the subscription rights attached to the Warrants or which may be alloted and issued or repurchased by the Company pursuant to the general mandates for the issue or repurchase of Shares granted to the Directors referred to in the paragraph headed "Written resolutions of all the Shareholders passed on 27th May, 2005" in Appendix VIII to this prospectus.

SUMMARY OF RISK FACTORS

Risks relating to the Group

- Discontinuation of DG Processing Arrangement
- Price fluctuations of raw materials
- Inadequate supply of and tariff fluctuation of electricity
- Instability of labour supply
- Reliance on major customers
- Market concentration
- Reliance on major suppliers
- Reliance on intellectual property rights
- Intellectual property rights disputes or proceedings
- Product liability claims
- Seasonal fluctuations
- Leasing of premises
- Litigation and contingent claims
- Credit risk
- Foreign currency risk
- Hong Kong taxation
- Payment of dividends by DG KARIO
- Dividend policy
- Reliance on key personnel
- Management of growth may not be optimised

Risks relating to the industry
- Competition
- WTO

Risks relating to the PRC
- Political and economic environment
- PRC legal and other regulatory considerations
- Foreign exchange control and currency conversion risks

Risks relating to the Share Offer
- Dilution of Shareholders' interest as a result of the Pre-IPO Share Option Scheme and the bonus issue of the Warrants
- Dilution of Shareholders' interest as a result of additional equity fund raising
- The liquidity and market prices of the Shares after the Share Offer may be volatile

For further details of these risks, please refer to the section headed "Risk factors" of this prospectus.

In this prospectus, unless the context otherwise requires, the following expressions have the following meanings:

"Achieve Best"	Achieve Best Limited, a limited liability company incorporated in the BVI on 28th October, 2004 and wholly and beneficially owned by Mr. Lam WM, and a Controlling Shareholder
"Apex Prima"	Apex Prima Limited, a limited liability company incorporated in the BVI on 28th October, 2004 and wholly and beneficially owned by Mr. Lam WM, and a Controlling Shareholder
"Application Form(s)"	the **WHITE** Application Form(s) and **YELLOW** Application Form(s), or where the context so requires, any of them
"Articles"	the existing articles of association of the Company approved and adopted by written resolutions of all the Shareholders on 29th April, 2005
"Asia Pilot"	Asia Pilot Development Limited, a limited liability company incorporated in the BVI on 21st July, 2004 and a direct wholly-owned subsidiary of the Company
"associates"	has the meaning ascribed thereto under the Listing Rules
"Beaute"	Beaute Inc., a limited liability company incorporated in the BVI on 28th October, 2004 and owned as to 50% by Apex Prima and 50% by Potentasia, and a Controlling Shareholder
"Board"	the board of the Directors
"Bookrunner"	Partners Capital Securities Limited, a corporation licensed to carry on type 1 (dealing in securities) of the regulated activities as set out in Schedule 5 to the SFO and a subsidiary of Partners Capital
"BVI"	British Virgin Islands
"Capitalisation Issue"	the issue of new Shares to be made upon capitalisation of part of the share premium account of the Company referred to in the paragraph headed "Written resolutions of all the Shareholders passed on 27th May, 2005" in Appendix VIII to this prospectus;

"CCASS"	the Central Clearing and Settlement System established and operated by HKSCC
"Champion Sight"	Champion Sight Investments Inc., a limited liability company incorporated in the BVI on 28th October, 2004 and wholly and beneficially owned by Mr. Chan
"Companies Law"	the Companies Law, Chapter 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)
"Company"	Kenford Group Holdings Limited (建福集團控股有限公司), a company incorporated in the Cayman Islands with limited liability on 10th November, 2004
"Controlling Shareholder(s)"	has the meaning as ascribed under the Listing Rules and in the context of the Company, means Beaute, Mr. Lam WM, Apex Prima, Achieve Best, Mr. Tam, Potentasia and Realchamp
"Despatch Date"	the date on which Share certificate(s), Warrant certificate(s) and/or refund cheque(s), in relation to the applications for the Offer Shares (with Warrants) are expected to be despatched
"Director(s)"	the director(s) of the Company
"DG KARIO"	東莞家利來電器有限公司 (Dongguan Kario Electrical Appliance Co. Ltd.*), a wholly foreign owned enterprise established by the Group under the laws of the PRC with limited liability on 21st March, 2002
"DG Kenford Factory"	東莞常平霞坑建福電子廠 (Dongguan Changping Town Xiakeng Kenford Electronics Factory*), a processing factory (not a legal entity) situated at Xiakeng Village, Changping Town, Dongguan City, Guangdong Province, the PRC owned and operated by 東莞市常平鎮外經實業公司 (Dongguan Changping Town Foreign Economic Industrial Company*), an Independent Third Party, for the manufacture of Kenford's electrical products pursuant to the DG Processing Agreement

"DG Processing Agreement"	the processing agreement dated 15th December, 1995 (as supplemented by a supplemental agreement dated 23rd August, 2000) between Kenford and 東莞市常平鎮外經實業公司 (Dongguan Changping Town Foreign Economic Industrial Company*) in relation to the processing arrangement for the manufacture of Kenford's electrical products, details of which are set out under the paragraph headed "Processing arrangement in the PRC" in the section headed "History and development" in this prospectus
"Enlarged Group"	the Group as enlarged by the acquisition of the KARIO Group, or, in respect of any period before the completion of such acquisition, deemed to have been so enlarged as if the Company were the holding company of the KARIO Group throughout that period
"Eligible Persons"	any person belonging to any of the following classes who, in the sole discretion of the Board, have contributed or will contribute to the growth and development of the Enlarged Group or any Invested Entity:– (i) any employee (whether full time or part time), senior executive or officer, manager, director (including executive, non-executive and independent non-executive director) or consultant of any members of the Enlarged Group or any Invested Entity; (ii) any consultant, adviser or agent engaged by any member of the Enlarged Group or any Invested Entity, who, under the terms of relevant engagement with the Enlarged Group or the relevant Invested Entity, is eligible to participate in a share option scheme of the Company; (iii) any vendor, supplier of goods or services or customer of or to any member of the Enlarged Group or Invested Entity who, under the terms of relevant agreement with the Enlarged Group or the relevant Invested Entity, is eligible to participate in a share option scheme of the Company; and (iv) any discretionary trust whose discretionary objects include the persons as described in (i), (ii) and/or (iii) above;
"Grantee"	any Eligible Person who accepts an Offer in accordance with the terms of the Share Option Scheme

"Great Incentive"	Great Incentive Limited, a company incorporated under the laws of the BVI with limited liability on 10th September, 2001, the entire issued share capital of which is beneficially owned as to 50% by Mr. Lam WM and 50% by Mr. Tam
"Greater China"	the PRC, Taiwan and Hong Kong
"Group"	the Company and its subsidiaries or, where the context so requires in respect of the period before the Company became the holding company of its present subsidiaries, the present subsidiaries of the Company or some or any of them provided that in respect of any period on or before the Latest Practicable Date, any reference to the "Group" shall exclude the KARIO Group
"HKSCC"	Hong Kong Securities Clearing Company Limited
"Hong Kong"	the Hong Kong Special Administrative Region of the People's Republic of China
"Independent Third Party(ies)"	person(s) not connected with any of the directors, chief executive and substantial shareholders of the Company or any of its subsidiaries or any of their respective associates;
"Invested Entity"	any entity in which any member of the Enlarged Group holds an equity interest
"KARIO"	KARIO Company Limited, a company incorporated under the laws of Hong Kong with limited liability on 21st December, 2001 and an indirect wholly-owned subsidiary of the Company
"KARIO Group"	KARIO and its subsidiary
"Kenford"	Kenford Industrial Company Limited (previously known as Ken Ford Industrial Company Limited), a company incorporated under the laws of Hong Kong with limited liability on 28th September, 1984 and an indirect wholly-owned subsidiary of the Company
"Latest Practicable Date"	27th May, 2005, being the latest practicable date prior to the printing of this prospectus for ascertaining certain information contained herein
"Lead Manager"	Partners Capital

"Listing Committee"	the listing sub-committee of the board of directors of the Stock Exchange responsible for Main Board matters
"Listing Date''	the date on which dealings in the Shares and the Warrants first commence on the Main Board
"Listing Rules"	the Rules Governing the Listing of Securities on the Main Board made by the Stock Exchange from time to time
"Main Board"	the stock market operated by the Stock Exchange prior to the establishment of Growth Enterprise Market of the Stock Exchange (excluding the options market) and which stock market continues to be operated by the Stock Exchange in parallel with the Growth Enterprise Market of the Stock Exchange (but excludes the Growth Enterprise Market of the Stock Exchange)
"Mr. Chan"	Mr. Chan Kwok Tung, Donny, an executive Director and the sole shareholder of Champion Sight which is a Shareholder
"Mr. Lam WH"	Mr. Lam Wai Hung, the younger brother of Mr. Lam WM
"Mr. Lam WM"	Mr. Lam Wai Ming, the founder of the Group, an executive Director and a Controlling Shareholder
"Mr. Tam"	Mr. Tam Chi Sang, the founder of the Group, an executive Director and a Controlling Shareholder
"Offer"	the offer of a grant of Option pursuant to the Share Option Scheme
"Offer Date"	the date on which an Offer is made to an Eligible Person pursuant to the Share Option Scheme
"Offer Price"	HK$0.55 per Offer Share (with Warrants) (exclusive of brokerage of 1%, SFC transaction levy of 0.005%, investor compensation levy of 0.002% and the Stock Exchange trading fee of 0.005%) being the price at which the Offer Shares (with Warrants) are to be subscribed for and issued pursuant to the Share Offer.
"Offer Shares"	the Public Offer Shares and the Placing Shares and "Offer Share" means each and any one of them

"Option"	a right granted to subscribe for Shares pursuant to the Share Option Scheme and "Options" shall be construed accordingly
"Option Period"	the period within which an Option shall be exercised, to be notified by the Board to each Grantee in respect of each Option
"Partners Capital"	Partners Capital International Limited, a corporation licensed to carry on type 1 (dealing in securities) and type 6 (advising on corporate finance) of the regulated activities as set out in Schedule 5 to the SFO, being one of the sponsors of the Company and the Lead Manager in connection with the Share Offer and the holding company of the Bookrunner
"Placing"	the conditional placing of the Placing Shares (with Warrants) by the Company to professional, institutional and other investors as described in the section headed "Structure of the Share Offer" in this prospectus
"Placing Shares"	the 90,000,000 new Shares initially being offered for subscription under the Placing (subject to reallocation as described in the section headed "Structure of the Share Offer" in this prospectus)
"Placing Underwriters"	the underwriters of the Placing Shares (with Warrants) listed in the section headed "Underwriting" in this prospectus
"Potentasia"	Potentasia Holdings Inc., a limited liability company incorporated in the BVI on 28th October, 2004 and wholly and beneficially owned by Mr. Tam, and a Controlling Shareholder
"PRC" or "China"	the People's Republic of China, which for the purpose in this prospectus only, excluding Hong Kong, Macau Special Administrative Region of the People's Republic of China and Taiwan
"Pre-IPO Share Option Scheme"	the pre-IPO share option scheme conditionally adopted by written resolutions of all the Shareholders on 27th May, 2005, the principal terms of which are summarised in the paragraph headed " Pre-IPO Share Option Scheme" in Appendix VIII to this prospectus

"Public Offer"	the offer for subscription of the Public Offer Shares (with Warrants) to the public in Hong Kong at the Offer Price on and subject to the terms and conditions set out in this prospectus and the Application Forms
"Public Offer Shares"	the 10,000,000 new Shares initially being offered by the Company for subscription under the Public Offer (subject to reallocation as described in the section headed "Structure of the Share Offer" in this prospectus)
"Public Offer Underwriters"	the underwriters of the Public Offer Shares (with Warrants) listed in the section headed "Underwriting" in this prospectus
"Realchamp"	Realchamp International Inc., a limited liability company incorporated in the BVI on 28th October, 2004 and wholly and beneficially owned by Mr. Tam, and a Controlling Shareholder
"Reorganisation"	the reorganisation of the Group as described in the section headed "Corporate reorganisation" in Appendix VIII to this prospectus
"SFC''	the Securities and Futures Commission of Hong Kong
"SFO''	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
"Share(s)"	share(s) of HK$0.001 each in the share capital of the Company
"Shareholder(s)''	holder(s) of the Shares
"Share Offer"	the Public Offer and the Placing
"Share Option Scheme"	the share option scheme conditionally adopted by written resolutions of all the Shareholders on 27th May, 2005, the principal terms of which are summarised in the paragraph headed "Share Option Scheme" in Appendix VIII to this prospectus

"Shenzhen Processing Factory"	深圳市寶安區西鄉鎮鳳凰崗建福電子廠 (Shenzhen City Baoan District Xixiang Town Fenghuang Gang Kenford Electronics Factory*), a processing factory (not a legal entity) previously situated at 寶安縣西鄉鎮鳳凰崗工業村 (Fenghuang Gang Industrial Village, Xixiang Town, Baoan County), Shenzhen, the PRC and owned and operated by (i) 深圳市寶安縣對外貿易公司 (Shenzhen City Baoan County Foreign Trade Company*) from 18th August, 1989 to 6th June, 1994 and (ii) 深圳市寶安區西鄉鎮鳳凰崗經濟發展公司 (Shenzhen City Baoan District Xixiang Town Fenghuang Gang Economic Development Company*) from 7th June, 1994 to 19th May, 2003, each an Independent Third Party, both for the manufacture of electrical products pursuant to the Shenzhen Processing Agreement
"Shenzhen Processing Agreement"	the processing agreement dated 18th August, 1989 between 深圳市寶安縣對外貿易公司 (Shenzhen City Baoan County Foreign Trade Company*), Shenzhen Processing Factory and Kenford (and supplemented by, amongst others, the supplemental agreement dated 7th June, 1994 and the supplemental agreement made in July, 1999 between Shenzhen Processing Factory and Kenford) in relation to the processing arrangement for the manufacture of electrical products, details of which are set out under the paragraph headed "Processing arrangement in the PRC" in the section headed "History and development" in this prospectus
"SinoPac"	SinoPac Securities (Asia) Limited, a licensed corporation registered under the SFO to carry on type 1 (dealing in securities), type 4 (advising on securities), type 6 (advising on corporate finance) and type 9 (asset management) of the regulated activities as set out in Schedule 5 to the SFO, being one of the sponsors of the Company in connection with the Share Offer
"Sky Ocean"	Sky Ocean Group Limited, a limited liability company incorporated in the BVI on 5th August, 2004 and an indirect wholly-owned subsidiary of the Company
"Sponsors"	Partners Capital and SinoPac
"Stock Exchange"	The Stock Exchange of Hong Kong Limited

"Subscription Price"	the initial subscription price of HK$0.60 payable in respect of each Share to which each holder of Warrant will be entitled upon exercise of the subscription rights attached to the Warrants, subject to adjustment
"Track Record Period''	the period comprising the three years ended 31st March, 2004 and the nine months ended 31st December, 2004
"Underwriter(s)"	the Placing Underwriters and the Public Offer Underwriters
"Underwriting Agreement"	the underwriting agreement dated 28th May, 2005 entered into between, amongst others, the Company and the Underwriters relating to the Share Offer
"U.K."	the United Kingdom
"United States" or "U.S."	the United States of America
"Warrants"	the warrants to be issued by the Company by way of bonus issue to all Shareholders whose names appear on the register of members of the Company as at completion of the Share Offer and the Capitalisation Issue in the proportion of one Warrant for every four Shares, in unit(s) of HK$0.30 of subscription rights to the holders thereof to subscribe up to HK$30,000,000 in aggregate in cash for a total of 50,000,000 Shares at the Subscription Price per Share, subject to adjustment, at any time from the Listing Date (which is expected to be Thursday, 16th June, 2005) up to and including 4:00 p.m. on the business day last preceding the third anniversary of the Listing Date (both dates inclusive), the principal terms of which are summarised in Appendix VII to this prospectus
"WTO"	World Trade Organisation
"WHITE Application Form(s)"	application form(s) for application of the Public Offer Shares (with Warrants) to be issued in the applicant's/applicants' own name(s)

"YELLOW Application Form(s)"	application form(s) for applicant(s) who want(s) the Public Offer Shares (with Warrants) to be issued in the name of HKSCC Nominees Limited and deposited directly into CCASS for credit to his/her/its/their investor participant stock account(s) or the stock account(s) of his/her/its/their designated CCASS participant(s)
"HK$" or "HK Dollar(s)" and "cents"	Hong Kong dollar(s) and cents, respectively, the lawful currency of Hong Kong
"Euro"	Euro, the lawful currency of the European Union
"RMB" or "Renminbi"	the lawful currency of the PRC
"US$" or "US Dollar"	United States dollars, the lawful currency of the United States
"Yen"	Japanese yen, the lawful currency of Japan
"%"	per cent.
"kg"	kilogram(s)
"sq. ft."	square foot (feet)
"sq. m."	square meter(s)

Unless otherwise specified, for the purposes of this prospectus, amounts denominated in RMB, US$, Euro and Yen are converted into Hong Kong dollars as follows:

HK$100	*= RMB106*
HK$10	*= Euro 1*
HK$7.8	*= US$1*
HK$1	*= Yen13*

The English names of the PRC entities mentioned in this prospectus are translated from their Chinese names. If there is any inconsistency, the Chinese names shall prevail.

The above exchange rates are for the purpose of illustration only and no representation is made that any amounts in RMB, US$, Euro, Yen or HK$ have been, could have been or may be converted, at the above rates or any other rates or at all.

GLOSSARY

The glossary contains explanations of certain technical terms and definitions used in this prospectus in connection with the Group and its business. The terms and their meanings may not correspond to standard industry meaning or usage of these terms.

"BS"	A British alternate current electrical appliances safety standard
"CAGR"	Acronym for compound annual growth rate
"CE"	An European alternate current electrical appliances safety standard
"CCC"	the abbreviation of China Compulsory Product Certification, being the statutory compulsory safety certification system and the basic approach to safeguard the consumers' rights and interests and protect the personal and property safety, which is adopted widely by international organizations
"CIF"	cost, insurance and freight sale
"FOB"	freight on board
"GS"	Geprufte Sicheheit, a German alternate current electrical appliances safety standard
"OBM"	original brand manufacturing under which the manufacturer develops and owns the design of products which are sold under such manufacturer's own brand name
"ODM"	original design manufacturing under which the manufacturer owns the design of the products which are sold under the customer's brand name
"OEM"	original equipment manufacturing under which the products are manufactured in whole or in part in accordance with a customer's specifications and are marketed under the customer's own brand name

"ISO 9001" or "ISO 9002"	the standards under the family of ISO 9000, a series of international standards on quality management and quality assurance developed by the International Organisation for Standardization
"UL"	A US alternate current electrical appliances safety standard developed by Underwriters Laboratories, Inc.

Prospective investors should consider carefully all the information set out in this prospectus and, in particular, should evaluate the following risks in connection with any investment in the Company, some of which may not be typically associated with investing in equity securities of companies in Hong Kong or other economically advanced jurisdictions.

RISKS RELATING TO THE GROUP

Discontinuation of DG Processing Arrangement

The Group's processing arrangement in the PRC is dependent upon continuous existence of the DG Processing Agreement. Before the relocation of the production machineries of the Shenzhen Processing Factory to the DG Kenford Factory, all sales of the Group were generated from the Shenzhen Processing Factory under the Shenzhen Processing Agreement. As the production of the DG Kenford Factory commenced in 2000, both the Shenzhen Processing Factory and the DG Kenford Factory were in operation during the transitional period. Accordingly, for the year ended 31st March, 2002, all sales of the Group were generated from both the Shenzhen Processing Factory under the Shenzhen Processing Agreement (as generated from the sale of stock brought forward from the year ended 31st March, 2001) and the DG Kenford Factory under the DG Processing Agreement. All the production in the year ended 31st March, 2002 was under the DG Processing Agreement and the production of the Shenzhen Processing Factory had been faded out completely by the end of the calendar year 2000. Subsequently, for the two years ended 31st March, 2004 and the nine months ended 31st December, 2004, all sales of the Group were generated solely from the DG Kenford Factory under the DG Processing Agreement. The term of the DG Processing Agreement will expire on 14th December, 2010 and in the event that the DG Processing Agreement is terminated prior to or is not extended after the expiry date, the DG Kenford Factory under the DG Processing Agreement might cease to manufacture products for Kenford. This may cause a material adverse impact on the Group's business and operations.

Price fluctuations of raw materials

Plastics, motors, power cords, switches, heating elements and thermostats are the principal raw materials which constitute the basic core components of the Group's products. During the Track Record Period, the Group has been sourcing these raw materials mainly from Hong Kong and Japan. For each of the three years ended 31st March, 2004 and the nine months ended 31st December, 2004, raw materials accounted for approximately 75%, 81%, 78% and 85% of the Group's total cost of sales respectively.

Given that the costs of the aforesaid raw materials have been fluctuating in the global market, it is challenging for the Group to maintain a consistent gross profit margin for its products. In the event that the Group is not able to (i) source the same raw materials at competitive cost level or (ii) raise the selling prices of its products without affecting the demanded quantity, the turnover and profitability of the Group may be adversely affected. During the Track Record Period, certain major raw materials experienced a general upward price trend. The prices of raw materials were, to a certain extent, volatile. Factors affecting the supply and prices of raw materials included fluctuation of oil price and commodity price and the variation in global economy as a whole.

Inadequate supply of and tariff fluctuation in electricity

The Group consumes substantial amounts of electricity in the course of its production process. The costs of electricity incurred by the Group were approximately HK$2.6 million, HK$6.0 million, HK$6.2 million and HK$5.3 million, respectively for each of the three years ended 31st March, 2004 and the nine months ended 31st December, 2004. However, given the significant demand for electricity in the PRC recently, the local electricity supply may not be reliable and stable for consumption at all times. Dongguan, as a part of the Guangdong Province, the PRC, is also subject to the limitation in the consumption of electricity. During the Track Record Period, there was no material adverse impact on the business operation and financial position of the Group as a result of inadequate supply of and fluctuation in electricity which was managed to be overcome by the effect of installing its own diesel generators. However, there is no guarantee of a stable and inexpensive electricity supply on an unlimited time basis.

Although the Group has its own diesel generators for contingency purposes to generate power supply for maintaining its daily operation, the cost of such alternative is currently more expensive than conventional electricity supply and is subject to the fluctuation of diesel fuel cost. Given that the DG Kenford Factory operates almost throughout the year, the instability in the supply of and the fluctuation in the tariff of electricity is expected to have a material impact on the Group's operation and profitability.

Instability of labour supply

For each of the three years ended 31st March, 2004 and the nine months ended 31st December, 2004, the cost of labour amounted to HK$22.8 million, HK$22.2 million, HK$24.6 million and HK$24.5 million respectively, which accounted for approximately 8%, 9% 9% and 8% of the total operating costs of the Group. At present, the Group notes that there is an unstable supply of labour in Dongguan and the Guangdong Province, the PRC as a whole. During the Track Record Period, the Group had not encountered any shortage in labour which had a material adverse impact on the business operation of the Group. However, in the event that shortage of labour supply continues or intensifies in Dongguan, the Group may face difficulties in recruiting or maintaining its labour force at competitive costs for production purpose, and the Group's ability to engage additional labour to satisfy urgent orders placed by its customers may also be impaired. In such cases, the Group's cost of production and the Group's profitability may be adversely affected.

Reliance on major customers

For each of the three years ended 31st March, 2004 and the nine months ended 31st December, 2004, the five largest customers together accounted for approximately 53%, 48%, 59% and 68% of the Group's turnover respectively, whereas the single largest customer accounted for approximately 19%, 11%, 17% and 37% of the Group's turnover respectively. The Group has maintained business relationship with its five largest customers for the nine months ended 31st December, 2004 for more than three years.

The Group had not entered into any long-term sales contract with its major customers. Should any of these major customers cease to purchase, or reduce their order size for, the Group's products and the Group is unable to obtain substitute orders with comparable size, the turnover and profitability of the Group may be adversely affected.

Market concentration

During the Track Record Period, the Group's finished products were exported to Europe and (to a lesser extent) the rest of the world. The Directors anticipate that the sales of the Group's products in the European market will still represent a significant proportion of the Group's total turnover in the near future. In this connection, the Group is exposed to changes in economic, technological, sociological and political conditions in the European market as well as changes in the demands for the Group's products in the European market. There is no assurance that such changes will not adversely affect the performance and the profitability of the Group.

Reliance on major suppliers

For each of the three years ended 31st March, 2004 and the nine months ended 31st December, 2004, the five largest suppliers together accounted for approximately 33%, 35%, 35% and 40% of the Group's purchase respectively, whereas the single largest supplier accounted for approximately 14%, 14%, 11% and 15% of the Group's purchase respectively.

As at the Latest Practicable Date, the Group did not enter into any long-term supply contracts with any of the suppliers of the Group for the sake of flexibility in sourcing quality supplies with competitive prices. 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. The Group's operations and profitability may, therefore, be adversely affected.

Reliance on intellectual property rights

As an ODM and OBM manufacturer, the success of the Group relies, to a certain extent, on whether it is able to successfully register and enforce protection for the intellectual property rights in relation to its product designs, trademarks and production technological know-how. As at the Latest Practicable Date, the Group had registered a number of trademarks, designs and patents. There is no assurance that such registrations can completely protect the Group against any infringement by its competitors or other third parties and there is no guarantee that such registrations can keep the Group free from any challenge by its competitors or other third parties. In the event that the Group's intellectual property rights cannot be enforced against the infringement by the Group's competitors or other third parties, the Group's profitability may be adversely affected.

Intellectual property rights disputes or proceedings

The use of intellectual property rights in countries where similar intellectual property rights have already been registered or used may constitute infringement of such third party intellectual property rights. In the event of any such disputes or legal proceedings, the reputation, the business and the profitability of the Group may be adversely affected.

Product liability claims

The Group is principally engaged in the design, manufacture and sale of electrical hair care products (including hair dryers and hair styling apparatus), electrical health care products and other small household electrical appliances. The Group has been maintaining product liability insurance for most types of the Group's products against possible claims relating to personal injury or property damage arising from the use of the products manufactured by the Group with the limit of liability of US$1 million for any one occurrence and US$2 million in aggregate during the period of insurance.

In the event that the Group is subject to a claim which might exceed the coverage of its insurance policy, the Group's operations and profitability may, therefore, be adversely affected.

Seasonal fluctuations

During the Track Record Period, the Group's sales are subject to seasonal fluctuations which generally peaked from August to November every year. For each of the three years ended 31st March, 2004, approximately 46%, 50%, and 47% of the Group's turnover were attributable to the sales of four months from August to November. For the nine months ended 31st December, 2004, approximately 55% of the Group's turnover were attributable to the sales of four months from August to November.

In the event that the Group fails to meet the demand for its products during the peak seasons due to bottlenecks or constraints in production capacity or otherwise, the Group's operations and profitability may be adversely affected.

Leasing of premises

DG KARIO

DG KARIO, as tenant, had entered into a tenancy agreement with an Independent Third Party for the leasing of premises for production use by DG KARIO. To the best knowledge of the Directors, the factory premises currently occupied by DG KARIO as tenant is located on collectively owned land. The PRC legal adviser to the Company is of the opinion that a tenancy agreement in relation to collectively owned land is invalid and unenforceable. Thus there is no assurance that the Group can occupy such leased factory premises throughout the tenure of the existing tenancy agreement. In any event, the current tenancy will expire by the end of September 2005 unless a renewal of the same is agreed by the relevant landlord and DG KARIO. The Company has not yet decided whether they will renew such tenancy upon expiry.

If DG KARIO is evicted from or not being permitted to use or occupy the current factory premises during the tenure of the existing tenancy agreement, or such tenancy cannot be renewed, and the Group cannot secure a prompt relocation to an appropriate factory premises, the operation of the Group may be interrupted and the business of the Group may be adversely affected.

In this connection, the Controlling Shareholders have entered into a deed of indemnity in favour of the Company to provide indemnities on a joint and several basis in respect of, amongst other things, any costs or expenses reasonably arising from the relocation of the business or assets from any property leased, rented, occupied or used by any member of the Group as at the date of this prospectus in the event any member of the Group is not being permitted to use or occupy or being evicted from any such property (excluding property owned by any member of the Group) it uses or occupies or any existing tenancy is not renewed upon its expiry and all operating and business losses which the relevant member of the Group may suffer arising from the relocation of its business or assets from the affected property. The Directors estimate that the maximum financial exposure of the Group arising from the legal deficiency of such tenancy agreement would be the sum of:

(i) the cost of factory relocation of approximately RMB200,000;

(ii) the cost expected to be incurred continually during production interruption of approximately RMB151,000 (based on the estimated average monthly relevant operation cost for the period from 1st April, 2004 to 31st December, 2004 (including those which were to be incurred during production interruption such as wages, staff costs, pension contribution, insurance, medical expenses, messing and depreciation but excluding those which were not necessary to be incurred during production interruption such as raw material cost, water and electricity, carriage outward/inward, courier expenses, commission expenses and other running expenses));

(iii) the cost attributable to the business interruption (in terms of loss in profit) of approximately RMB1,766,000 (based on an average six-month profit (excluding commission expenses payable to the Group which would otherwise be eliminated in full upon the KARIO Group becoming a wholly-owned subsidiary of the Group) as derived from the net profit attributable to shareholders of the KARIO Group for the nine months ended 31st December, 2004). The Directors estimated that the duration of factory relocation involved would not exceed six months. However, the Directors envisage that any loss in profit of the KARIO Group as a result of the business interruption during the factory relocation can be mitigated by sub-contracting its sales order to third party subcontractors; and

(iv) the cost of entering into a new lease (one month advance rental payment, two-month rental deposit and a-half-month rental as agency fee) of approximately RMB50,000.

Based on the nature and the specification of the machineries and equipment of DG KARIO (which are movable after initial installation), the Directors do not foresee any material impairment of fixed assets during the factory relocation.

Further details of the deed of indemnity are set out in the section headed "Indemnities" in Appendix VIII to this prospectus.

Shenzhen factory

The Group further leased a parcel of collectively-owned land at Fenghuang Gang Village, Xixiang Town, Baoan District, Shenzhen, the PRC with a site area of 1,300 sq.m., on which an industrial building ("Shenzhen Factory Premises") with a gross floor area of 3,200 sq.m. was erected, for a term of 20 years expiring on 25th March, 2012 at a land use fee of RMB2 per month per sq.m. In April 2003, in view of the termination of the Shenzhen Processing Agreement, the Group sub-let the Shenzhen Factory Premises to an Independent Third Party in 2003 for the remaining term of approximately 9 years up to 25th March, 2012 at a rental of RMB1,000,000 for the entire term.

Given the Shenzhen Factory Premises is located on a parcel of collectively owned land, the PRC legal adviser to the Company is of the opinion that a lease in relation to collectively owned land is invalid and unenforceable. Thus, there is no assurance that the Group can occupy or permit its sub-lessee to occupy such Shenzhen Factory Premises throughout the tenure of the existing lease. If the Group or its sub-lessee is evicted from or not being permitted to use or occupy the Shenzhen Factory Premises during the tenure of the existing lease, the sub-lease arrangement of the Group may be interrupted.

The Directors estimate that the maximum financial exposure of the Group arising from the legal deficiency of such lease would be the sum of:

1. the forfeiture by the PRC land administration authority of rental income of RMB1 million received by the Group from the sub-lessee as voidable proceeds;

2. the penalty chargeable by the PRC land administration authority of not more than 20% on the voidable proceeds of RMB1 million received by the Group from the sub-lessee; and

3. the damages payable by the Group to the sub-lessee of not more than RMB1 million as agreed between, inter alia, the sub-lessee and the relevant member of the Group under the relevant sub-lease agreement.

Although the Directors do not envisage any material adverse impact arising from the abandonment of the Group's occupancy rights on, and the subsequent sub-lease arrangement on, the aforesaid collectively-owned land in Shenzhen, the Controlling Shareholders have entered into a deed of indemnity in favour of the Company to provide indemnities on a joint and several basis in respect of any liabilities, costs or expenses payable by the Group arising from any breach or non-compliance on the part of the relevant member of the Group of any applicable law or regulations of the PRC in connection with the leasing, sub-leasing, use or occupation of the Shenzhen Factory Premises and/or the legal deficiency of the said lease and sub-lease arrangement of the Group. Further details of the deed of indemnity are set out in the paragraph headed "Indemnities" in Appendix VIII to this prospectus.

Litigation and contingent claims

On 27th April, 2004, a High Court action was commenced by WIK Far East Limited (the "Plaintiff") against a subsidiary of the Company (the "Defendant") in respect of alleged infringement of a patent registered by the Plaintiff ("Patent") in respect of certain retractable brushes ("Retractable Brushes") manufactured and sold by the Defendant ("Litigation"). The Plaintiff claimed for (i) an injunction to restrain the Defendant from infringing the Patent; (ii) an order for delivery-up of all Retractable Brushes in the possession, power, custody or control of the Defendant; (iii) damages for the Defendant's act of Patent infringement, or alternatively, an enquiry as to damages, or at the option of the Plaintiff, an account of profits in respect of each and every act of Patent infringement; and (iv) costs.

The Defendant denies the Plaintiff's claims and challenges the validity of the Patent. The Defendant further counterclaimed for (i) a declaration that the Patent is and always has been invalid, (ii) an order that the Patent be revoked and that the entry of the Patent be expunged from the Registrar of Patents, and (iii) costs.

The Company's Hong Kong legal advisers advised that in the event that the Defendant fails in its defence to the claim of Patent infringement ("Claim") in the Litigation, (i) an injunction will be granted to restrain the Defendant from infringing the Patent; (ii) the Defendant will be liable to pay damages (amount to be assessed by the Court) or, at the option and election of the Plaintiff, account for all profits made by the Defendant in respect of each and every infringing act by the Defendant in respect of the Patent; and (iii) in addition to its own costs, the Defendant will most likely be ordered to pay the legal costs of the Plaintiff in the Litigation, such costs to be taxed if not agreed.

As at the Latest Practicable Date, no settlement has been reached by the parties and given that trial has not yet commenced and the parties are still at a relatively early stage of the Litigation, no judgments on the quantum of damages have been made against the Defendant in respect of the Litigation.

The Directors are of the opinion that the Defendant has counterclaims against the Plaintiff. The Directors are further of the opinion that, in the event that the Defendant fails in its defence to the Claim, the quantum of the ultimate costs and damages (if any) to be incurred by the Group, though cannot be ascertained or quantified at this early stage, based on the advices from the counsel retained by the Defendant in the Litigation and the Company's Hong Kong legal advisers and assuming that the Plaintiff will claim for damages for loss of profits, or at its election, for accounts of profits, it will not have a material adverse impact on the Group's financial position.

Notwithstanding the above, the Controlling Shareholders have jointly and severally agreed and undertaken to indemnify the Group from and against any claims, losses, expenses (including legal costs) which may be incurred by the Group in connection with the Litigation. Further details of the deed of indemnity are set out in the paragraph headed "Indemnities" in Appendix VIII to this prospectus.

Credit risk

A substantial portion of the Group's sales to its customers is made on credit terms for a period of up to 90 days. For the three years ended 31st March, 2004 and the nine months ended 31st December, 2004, the debtors' accounts and bills receivable turnover days of the Group were 14 days, 24 days, 32 days and 27 days respectively.

As at 31st December, 2004, trade receivables of the Group overdue for more than 120 days amounted to approximately HK$1.3 million, representing only approximately 3% of the total trade and bill receivables outstanding on the same date. HK$0.3 million, being approximately 23% of such overdue amount had been settled subsequently up to 28th February, 2005. During the three years ended 31st March, 2004 and for the nine months ended 31st December, 2004, bad debts written off by the Group were not significant and amounted to approximately HK$26,000, HK$476,000, HK$9,000 and HK$5,000 respectively.

The Group has implemented credit risk management which includes the maintenance of credit insurance against risk arising from customers' non-payment of 90% of the invoiced values of trade receivables outstanding from certain key customers of the Group from time to time (subject to the individual sums insured as agreed). Notwithstanding the satisfactory record of the settlement of the Group's credit sales during the Track Record Period, there is no assurance that the Group will not encounter any material difficulties in collecting trade receivables in the future or that the Group will be able to continue the purchase of credit insurance on an ongoing basis. In addition, the Group is still exposed to the risk of customers' default to the extent of those trade receivables which are not covered by the prevailing credit insurance policy. In view of the foregoing, the Group may be exposed to the risk of bad and doubtful debts which may in turn adversely affect the business and financial results of the Group.

Foreign currency risk

The Group is subject to foreign currency exposure since its purchases are mainly settled in US Dollars, HK Dollars and Yen. Revenues derived from the Group's sales are, however, mainly denominated in US Dollars.

Although the Group may from time to time attempt to hedge the potential currency risk against the Group by taking long or short positions in certain financial derivatives available in the market, there is no assurance that any movement in the exchange rates between the currencies in which the Group's purchases are denominated and those in which the Group's revenues are denominated can be hedged, either fully or at all, failing which the Group's business and profitability may be adversely affected.

Hong Kong taxation

Under Section 14 of the Inland Revenue Ordinance ("IRO"), a company carrying on business in Hong Kong is subject to Hong Kong profits tax in respect of its profits arising in or derived from Hong Kong from such business. Pursuant to the Departmental Interpretation and Practice Notes No. 21 ("DIPN 21") in relation to a processing arrangement with a PRC entity where the production processes are carried out at the processing factory situated in the PRC, profits from the sale of goods that were manufactured by such PRC entity can be apportioned on a 50:50 basis and 50% of the chargeable profits so apportioned can be treated as non-taxable in Hong Kong. The Directors consider that the Group's mode of manufacturing operations under the DG Processing Agreement is within the scope under DIPN 21 described above.

In the event that (i) the DG Processing Agreement could not be extended upon its expiry date or the processing arrangement under the DG Processing Agreement will cease to manufacture products and/or act as manufacturing arms of the Group in the PRC, or (ii) there are any changes in the Hong Kong tax law or its interpretation, the Inland Revenue Department might treat the profits of the Group as trading profits derived from Hong Kong and render the Group fully subject to Hong Kong profits tax that may cause significant adverse impact on the Group's profitability.

Payment of dividends by DG KARIO

Under the PRC laws, dividends may only be paid out of distributable profits. Distributable profits of DG KARIO, being an indirect wholly-owned subsidiary of the Company, are represented by its after-tax profits as determined under the PRC Generally Accepted Accounting Principles ("PRC GAAP"), and deduct any recovery of accumulated losses and allocations to statutory funds that it is required to make. Any distributable profits that are not distributed in a given year can be retained for future distribution in forthcoming years.

The calculation of distributable profits under PRC GAAP is different from that under HKGAAP in various aspects. DG KARIO may be unable to pay out any dividend in a given year to the Company if it does not have distributable profits as determined under PRC GAAP even though it has profits for that year as determined under HKGAAP. Despite that the Group might derive a large portion of profit from DG KARIO in the future, the Group may still not be able to pay out dividends to the Shareholders if DG KARIO does not have distributable profits as determined under PRC GAAP.

Dividend policy

For the three years ended 31st March, 2004 and the nine months ended 31st December, 2004, members of the Group declared dividends of nil, HK$2.8 million, HK$80.0 million and 10 million respectively. In connection with the Reorganisation and in preparation for the Share Offer, dividends were declared in favour of Mr. Lam WM and Mr. Tam, the then shareholders of Kenford, in the respective amount of HK$10 million in December 2004 and HK$30.0 million in March, 2005. However, there is no assurance that dividends to be paid in the future will be paid at a similar level to dividends paid in the past and the Directors do not intend to use past dividend payments pattern as an indication of the Company's future dividend policy.

Reliance on key personnel

The success of the Group, to a large extent, depends on the continued services of its key senior staff. Should any of these key senior staff cease to be involved in the management and operations of the Group or should their full-time services be interrupted, there may be a material and adverse impact on the Group's financial and operating performance. There can be no assurance that the Group will be able to retain their services in the future.

The Group believes that its future success will, to a large extent, depend on its ability to attract, retain and motivate skilful and experienced professionals. In addition, the Group's future expansion will require an increase in the number of relevant well-experienced staff. However, there can be no assurance that the Group will be able to attract or retain such staff in the future. Should the Group experience an inadequate supply of such staff, the Group's operations and business growth may be adversely affected.

Management of growth may not be optimised

The Group's ability to compete effectively and to manage future growth, if any, will depend on its ability to continue implementing and improving operational, financial and management information systems on a timely basis and to expand, train, motivate and manage its work force. The Group may not succeed despite making such efforts, subject also to changes in market and environments (including economic, technological, sociological and political changes). The Group's failure to effectively manage its expansion could cause its expenses to grow and/or its revenue to decline or grow more slowly than expected, and could otherwise have material adverse effects on its business, financial condition and results of operations.

RISKS RELATING TO THE INDUSTRY

Competition

The Directors envisage that all electrical appliances manufacturers are, to a certain extent, competitors of the Group. The Group faces competition from manufacturers of electrical appliances around the world. Although the establishment of production facilities with design capability and production capacity and efficiency comparable to those of the Group would require considerable capital investment, the Directors consider that the initial capital required to enter into the industry is not prohibitively high. Save as aforesaid, the Directors do not consider that there are any material entry barriers to the manufacturing of electrical appliances. Hence, any considerable increase in competition may have an adverse effect on the Group's business and profitability.

WTO

Upon the adoption of more relaxed measures as a result of PRC's accession to the WTO, the electrical appliances market may gradually become more open, and whereupon the number of foreign electrical appliances companies to compete with local and other existing electrical appliances companies in the PRC may increase. The Directors anticipate that the accession of the PRC to the WTO may hence result in keener competition in the electrical appliances industry in the PRC domestic market.

On the other hand, with lower import tariffs after the accession of the PRC to the WTO, it is expected that imported electrical appliances manufactured overseas will become more comparable to the domestic products in the PRC in terms of pricing. KARIO Group has been engaged in sales of electrical appliance to PRC domestic market but was not part of the Group during the Track Record Period. Assuming KARIO and DG KARIO were subsidiaries of the Company, the sales of the KARIO Group to the PRC market accounted for approximately 2%, 5% and 4% of the total sales of the Group for the two years ended 31st March, 2003, 31st March, 2004 and the nine months ended 31st December, 2004. The Group plans to penetrate into the PRC market and develop its OBM business through its interest in the KARIO Group. If the Group fails to maintain its competitive advantages against keen competition from the foreign manufacturers, the Group's profitability may be adversely affected as far as PRC domestic sales are concerned.

RISKS RELATING TO THE PRC

Political and economic environment

The PRC is in the process of transforming its economy from a planned economy into a more market-oriented economy. Political, economic and social factors may result in the PRC government making further changes to its laws or regulations, introducing additional tax measures, imposing restrictions on currency exchange and remittance, and changing tax rates or customs duties. Such factors may also adversely affect the Group's operations in the PRC.

PRC legal and other regulatory considerations

The PRC legal system is a civil law system which is based on written statutes. Although since 1979, many laws and regulations governing economic and business practices have been promulgated, the PRC legal system is still being developed. The interpretation of the PRC law may be subject to policy changes reflecting domestic political and social changes. Significant progress has been made in the promulgation of laws and regulations dealing with economic matters such as corporate governance, foreign investment, commerce, taxation and trade. The promulgation of new laws, changes of existing laws and the abrogation of local laws and regulations could have negative impact on the business and prospects of the Group's business.

Foreign exchange control and currency conversion risks

RMB is not a freely convertible currency in the international currency market and its exchange rate system is a managed-floating-rate system. Upon the execution of the unitary managed-floating-rate system in 1994, the RMB was devaluated by 50% against the US dollar. Since then, the exchange rate between the RMB and US dollar has been generally stable. However, there can be no assurance that the RMB will not become volatile against other currencies. In the event of a major devaluation of the RMB, the Group may incur capital depreciation on its investments in the PRC as well as a material adverse effects on the Group's operations and financial condition, in view of the Group's significant PRC presence at the moment.

Although new policies were introduced by the PRC government in 1996 to allow greater convertibility of the RMB, significant restrictions still remain. Whilst the Group currently is able to convert its RMB earnings into foreign currency, there is no assurance that the PRC government will not introduce more restrictive foreign exchange measures that could adversely affect the ability of those members of the Group to convert its RMB earnings into foreign currencies for remittance to Hong Kong by way of dividend payments as well as return of capital upon the termination of joint ventures or investments in the PRC.

RISKS RELATING TO THE SHARE OFFER

Dilution of Shareholders' interest as a result of the Pre-IPO Share Option Scheme and the bonus issue of the Warrants

As at the date of this prospectus, options to subscribe for 4,000,000 Shares in aggregate (representing 1% of the enlarged issued share capital of the Company immediately after completion of the Share Offer and Capitalisation Issue) have been conditionally granted by the Company under the Pre-IPO Share Option Scheme. Upon the floatation of the Company, bonus warrants will be issued to each Shareholder on the basis of one Warrant for every four Shares held. In the event that the holders of the Warrants exercise their subscription rights attaching to the Warrants and/or the holders of options under the Pre-IPO Share Option Scheme exercise their subscription rights attaching to such options, earnings per Share and net asset value per Share will decline and interests of the Shareholders will be diluted.

Dilution of Shareholders' interest as a result of additional equity fund raising

The Group may need to raise additional funds in the future to finance its expansion or new developments relating to its existing operations or new acquisitions. If additional funds are raised through the issuance of new equity or equity-linked securities of the Company other than on a pro rata and/or pari passu basis to existing Shareholders, the percentage ownership of the Shareholders may be diluted and their existing securities may have rights, preferences and privileges inferior to those of the new Shares.

The liquidity and market prices of the Shares after the Share Offer may be volatile

The price and trading volume of the Shares may be highly volatile subject to the market sentiment. Fluctuations in the revenues, earnings, cash flows, capital expenditure for new investments, publications relating to (i) investments; and (ii) mergers and acquisitions may cause substantial fluctuations of the market price and trading volume of the Shares. In the event that current shareholders collectively decide to realise their investments by disposing of their Shares, the market price of the Shares may be depressed.

According to paragraph 27 of Part I of the Third Schedule to the Companies Ordinance, the Company is required to include in this prospectus a statement as to the gross trading income or sales turnover of the Group and the KARIO Group during the three financial years immediately preceding the issue of this prospectus.

According to paragraph 31 of Part II of the Third Schedule to the Companies Ordinance, the Company is required to include in this prospectus a report by the auditors and reporting accountants of the Company with respect to the financial results of the Group and the KARIO Group for each of the three financial years immediately preceding the issue of this prospectus.

Pursuant to Rule 4.04(1) and Rule 4.04(2) of the Listing Rules, the Company is required to include in this prospectus the accountants' reports of the Group and the KARIO Group covering the combined results of the Group and the consolidated results of the KARIO Group in respect of each of the three financial years immediately preceding the issue of this prospectus.

The accountants' reports of the Group and the KARIO Group for each of the three years ended 31st March, 2004 and the nine months ended 31st December, 2003 and 2004 have been prepared and are set out in Appendix I and Appendix II respectively to this prospectus. However, as this prospectus has been issued within a short period of time after 31st March, 2005, the accountants' reports have not been prepared for the full year ended 31st March, 2005 as it would be unduly burdensome for the Company to do so and impossible for the audited results for the year ended 31st March, 2005 to be finalised in a short period of time.

In these circumstances, an application was made to the SFC for a certificate of exemption from strict compliance with paragraphs 27 and 31 of the Third Schedule to the Companies Ordinance in relation to the inclusion of the accountants' report of the Group and the KARIO Group for the full year ended 31st March, 2005 in this prospectus on the ground that it would be unduly burdensome for the Company to do so and a certificate of exemption has been granted by the SFC under section 342A(1) of the Companies Ordinance.

An application has also been made to the Stock Exchange for a waiver from strict compliance with Rule 4.04(1) and Rule 4.04(2) of the Listing Rules, and such waiver has been granted by the Stock Exchange.

The Directors have confirmed that they have performed sufficient due diligence on the Group and the KARIO Group to ensure that, save as disclosed herein, up to the date of issue of this prospectus, there has been no material adverse change in the financial position of the Group and the KARIO Group since 31st December, 2004, and there is no event which would materially affect the information respectively shown in the "Accountants' report" as set out in Appendix I to this prospectus and "Additional financial information of KARIO" in Appendix II to this prospectus.

DISCLOSURE OF INFORMATION ON THE SHARE OFFER

The Offer Shares and the Warrants are offered solely on the basis of the information contained and representations made in this prospectus and the Application Forms. No person is authorised in connection with the Share Offer to give any information or to make any representation not contained in this prospectus and the Application Forms, and any information or representation not contained in this prospectus and therein must not be relied upon as having been authorised by the Company, the Sponsors, the Underwriters, any of their respective directors or any other person involved in the Share Offer.

DIRECTORS' RESPONSIBILITY FOR THE CONTENTS OF THIS PROSPECTUS

This prospectus, for which the Directors collectively and individually accept full responsibility for the accuracy and completeness of the information contained herein, includes particulars given in compliance with the Companies Ordinance, the Securities and Futures (Stock Market Listing) Rules of Hong Kong and the Listing Rules for the purpose 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 in connection with the Share Offer and, together with the Application Forms, sets out the terms and conditions of the Share Offer.

The Share Offer is sponsored by the Sponsors. Subject to the terms of the Underwriting Agreement, the Offer Shares (with Warrants) are fully underwritten by the Underwriters. For information about the Underwriters and the underwriting arrangements, please see the section headed "Underwriting" in this prospectus.

OFFER SHARES (WITH WARRANTS) TO BE OFFERED IN HONG KONG ONLY

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

No invitation may be made directly or indirectly by or on behalf of the Company to members of the public in the Cayman Islands to subscribe for or acquire any of the Offer Shares (with Warrants).

Each person acquiring the Offer Shares (with Warrants) will be required to confirm, or be deemed by its acquisition of the Offer Shares (with Warrants) to have confirmed, that he or she or it is aware of the above restrictions on offer of the Offer Shares (with Warrants).

APPLICATION FOR LISTING

The Company has applied to the Listing Committee for the listing of, and permission to deal in, on the Main Board, (i) the Shares in issue and to be issued as mentioned in this prospectus (including any Shares to be issued pursuant to the exercise of options that have been granted under the Pre-IPO Share Option Scheme or may be granted under the Share Option Scheme or the subscription rights attaching to the Warrants); and (ii) the Warrants to be issued as mentioned in this prospectus.

No part of the Company's share, warrant or loan capital is listed or dealt in on any other stock exchange. At present, the Company is not seeking or proposing to seek listing or permission to deal in the Shares and/or the Warrants on any other stock exchanges.

Pursuant to Rule 8.08 of the Listing Rules, at the time of listing and at all times thereafter, (i) the Company must maintain the "minimum prescribed percentage'' of 25% of the issued share capital of the Company in the hands of the public; (ii) the market capitalisation of all the issued share capital of the Company at the time of listing must be at least HK$200 million; (iii) the share capital of the Company in the hands of the public should, as at the time of listing, be held among at least 300 persons.

PROFESSIONAL TAX ADVICE RECOMMENDED

Potential shareholders are recommended to consult their professional advisers if they are in any doubt as to the taxation implications of subscribing for the Offer Shares (with Warrants), or about purchasing, holding or dealing in them.

The Company, the Sponsors and the Underwriters and all of their respective directors, agents or advisers or any other person involved in the Share Offer do not accept any responsibility for any tax effects on, or liabilities of, any person resulting from subscribing for, or purchasing, holding, dealing in or disposing of the Shares and/or the Warrants.

STAMP DUTY

Dealings in Shares and/or the Warrants registered on the Company's Hong Kong branch register of members and the register of warrantholders respectively maintained in Hong Kong will be subject to Hong Kong stamp duty.

PROCEDURES FOR APPLICATION FOR THE PUBLIC OFFER SHARES (WITH WARRANTS)

The procedures for applying for the Public Offer Shares (with Warrants) are set out in the section headed "How to apply for the Public Offer Shares (with Warrants)" in this prospectus and on the relevant Application Forms.

SHARES AND WARRANTS WILL BE ELIGIBLE FOR CCASS

If the Stock Exchange grants the listing of, and permission to deal in, on the Main Board, the Shares in issue and to be issued under the Share Offer and the Capitalisation Issue and upon the exercise of any options which have been granted under the Pre-IPO Share Option Scheme or may be granted under the Share Option Scheme, the Warrants to be issued and the new Shares which may fall to be issued upon the exercise of the subscription rights attaching to the Warrants as described in this prospectus, and the Company complies with the stock admission requirements of HKSCC, the Shares, the Warrants and the new Shares which may fall to be issued upon the exercise of the subscription rights attaching to the Warrants will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the Listing Date or on any other date HKSCC chooses. 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 and the Warrants to be admitted into CCASS.

STRUCTURE OF THE SHARE OFFER

Details of the structure of the Share Offer, including conditions of the Share Offer, are set out in the section headed "Structure of the Share Offer" in this prospectus.

DEALINGS AND SETTLEMENT

Dealings in the Shares and the Warrants are expected to commence on Thursday, 16th June, 2005.

Shares will be traded in board lots of 4,000 Shares and Warrants will be traded in board lots of 20,000 Warrants.

The stock code for the Shares is 464 and the warrant code for the Warrants is 452.

Name	Address	Nationality
Executive Directors		
Lam Wai Ming	Flat A, 35th Floor Tower 1, Dynasty Court 23 Old Peak Road Hong Kong	Australian
Tam Chi Sang	House 12 Sunderland Estate 1 Hereford Road Hong Kong	Chinese, Hong Kong
Chan Kwok Tung, Donny	A4, 1st Floor Block A, Twilight Court 4 Marconi Road Kowloon Hong Kong	British
Independent non-executive Directors		
Chiu Fan Wa	Flat D, 3rd Floor Po On Mansion 1 Tai Yue Avenue Taikoo Shing Hong Kong	Chinese, Hong Kong
Li Chi Chung	Flat 7G, Block 7 Kenswood Court Kingswood Villas Tin Shui Wai New Territories	Chinese, Hong Kong
Li Tat Wah	27A Harbour View Garden Tower III, 21 North Street Kennedy Town Hong Kong	Chinese, Hong Kong

Sponsor and Lead Manager	Partners Capital International Limited Room 1305, 13th Floor 9 Queen's Road Central Hong Kong
Sponsor	SinoPac Securities (Asia) Limited 23rd Floor, Two International Finance Centre 8 Finance Street Central Hong Kong
Bookrunner	Partners Capital Securities Limited Room 1303, 13th Floor 9 Queen's Road Central Hong Kong
Underwriters	Kim Eng Securities (Hong Kong) Limited Room 1901, Bank of America Tower 12 Harcount Road Central Hong Kong
	Christfund Securities Limited Suites 1907-1909, Two International Finance Center 8 Finance Street Central Hong Kong
	South China Securities Limited 28/F., Bank of China Tower No. 1 Garden Road Central Hong Kong
	Hong Tong Hai Securities Limited 5/F. & Units 1702-3 Skyline Commercial Centre 71-77 Wing Lok Street Sheung Wan Hong Kong

G.K. Goh Securities (H.K.) Limited
Suite 1808, Alexandra House
16-20 Chater Road
Central
Hong Kong

Guotai Junan Securities (Hong Kong) Limited
27/F., Low Block
Grand Millennium Plaza
181 Queen's Road Central
Hong Kong

Legal advisers to the Company

As to Hong Kong law:
Iu Lai & Li
20th Floor
Gloucester Tower
The Landmark
11 Pedder Street
Central
Hong Kong

As to the PRC law:
King & Wood
31st Floor
Office Tower A
39 Dong San Huan Zhong Lu
Chaoyang District
Beijing
the PRC

As to the Cayman Islands law:
Conyers Dill & Pearman
Century Yard
Cricket Square
Hutchins Drive
P.O. Box 2681GT
George Town
Grand Cayman
British West Indies

Legal advisers to the Sponsors and the Underwriters	Sit, Fung, Kwong & Shum 18th Floor Gloucester Tower The Landmark 11 Pedder Street Central Hong Kong
Joint reporting accountants	BDO McCabe Lo & Company *Certified Public Accountants* 8th Floor Wing On Centre 111 Connaught Road Central Hong Kong PCP CPA Limited *Certified Public Accountants* Suites 2205-6 Island Place Tower 510 King's Road North Point Hong Kong
Property valuer	B.I. Appraisals Limited Unit B 38th Floor Bank of China Tower 1 Garden Road Hong Kong
Receiving banker	Hang Seng Bank Limited 83 Des Voeux Road Central Hong Kong

CORPORATE INFORMATION

Registered office	Century Yard Cricket Square Hutchins Drive P.O. Box 2681GT George Town Grand Cayman British West Indies
Principal place of business in Hong Kong	Room 1106-8, Riley House 88 Lei Muk Road Kwai Chung New Territories Hong Kong
Company secretary	Chan Kwok Tung, Donny, *FCS, FCIS*
Qualified accountant	Chan Tsz Ping, *CPA ACCA*
Website address	*www.kenford.com.hk**
Members of the audit committee	Chiu Fan Wa Li Chi Chung Li Tat Wah
Authorised representatives#	Lam Wai Ming Chan Kwok Tung, Donny
Principal share registrar and transfer office	Butterfield Bank (Cayman) Limited Butterfield House 68 Fort Street P.O. Box 705 George Town Grand Cayman Cayman Islands
Compliance Adviser	Partners Capital International Limited Room 1305, 13th Floor 9 Queen's Road Central Hong Kong

 # for the purpose of Rule 3.05 of the Listing Rules

** The contents of the website do not form part of this prospectus.*

Hong Kong branch share registrar, transfer office and warrant registrar	Computershare Hong Kong Investor Services Limited Shops 1712-1716 17th Floor, Hopewell Centre 183 Queen's Road East Wanchai Hong Kong
Principal bankers	The Hongkong and Shanghai Banking Corporation Limited 1 Queen's Road Central Hong Kong Hang Seng Bank Limited 83 Des Voeux Road Central Hong Kong Dah Sing Bank Limited Dah Sing Financial Centre 108 Gloucester Road Hong Kong The Bank of East Asia Limited 10 Des Voeux Road Central Hong Kong

OVERVIEW OF THE HOUSEHOLD ELECTRICAL APPLIANCES INDUSTRY OF HONG KONG

According to the Hong Kong Trade Development Council, Hong Kong produces and exports a wide range of household electrical appliances, including:

(1) kitchen appliances, which range from food grinders, mixers and juicers to thermic appliances like coffee makers, toasters, electric kettles and cup warmers, and ovens and cookers;

(2) home care appliances, which include electric fans, air conditioning machines, vacuum cleaners, floor polishers, space heaters and irons;

(3) personal care products which include hair dressing and hair drying apparatus, shavers, hair clippers, massagers, face steamers and electric toothbrushes; and

(4) household lighting products.

In 2002, Hong Kong was the world's largest exporter of hair dressing apparatus in terms of value, and was the world's second largest exporter of electric food grinders, mixers and juicers. During the period from January to August 2004, Hong Kong's exports of household electrical appliances declined by 9% whilst sales to the United States, the largest market, declined by 22%. In contrast, exports to the European Union grew by 6% on the back of a stable Euro.

The industry is dominated by manufacturers of small-sized household appliances, with a few companies producing large items such as air conditioners and space heaters. Today, most manufacturers have relocated their production facilities to the PRC to maintain cost competitiveness. Offices in Hong Kong are mainly responsible for product development, quality control, management, marketing and logistic support.

Apart from OEM, a large portion of Hong Kong companies have their principal business on ODM basis. These cover product design and development, mechanical drawing, prototyping and sampling, tool-making and production, with buyers providing the industrial/conceptual design only, such as cosmetic drawings and features. In some cases, the industrial/conceptual designs are undertaken by Hong Kong companies. There are an increasing number of Hong Kong manufacturers adopting a strategy of higher degree of vertical integration to increase value-adding. In addition to product design and development, tool-making, plastics injection moulding, metal parts manufacturing, production and/or quality assurance are all done under one roof.

Efficient management is also another feature of Hong Kong's electrical appliances industry. Against the backdrop of fast changing markets, Hong Kong companies emphasise quick response to ensure effective marketing services to their customers, and to monitor the changing product trends. Moreover, due to the growing concern of quality conscious buyers, more companies have strengthened their quality assurance systems. This is evidenced by the growing number of Hong Kong companies certified as complying with ISO, which is an internationally recognised standard for quality management system.

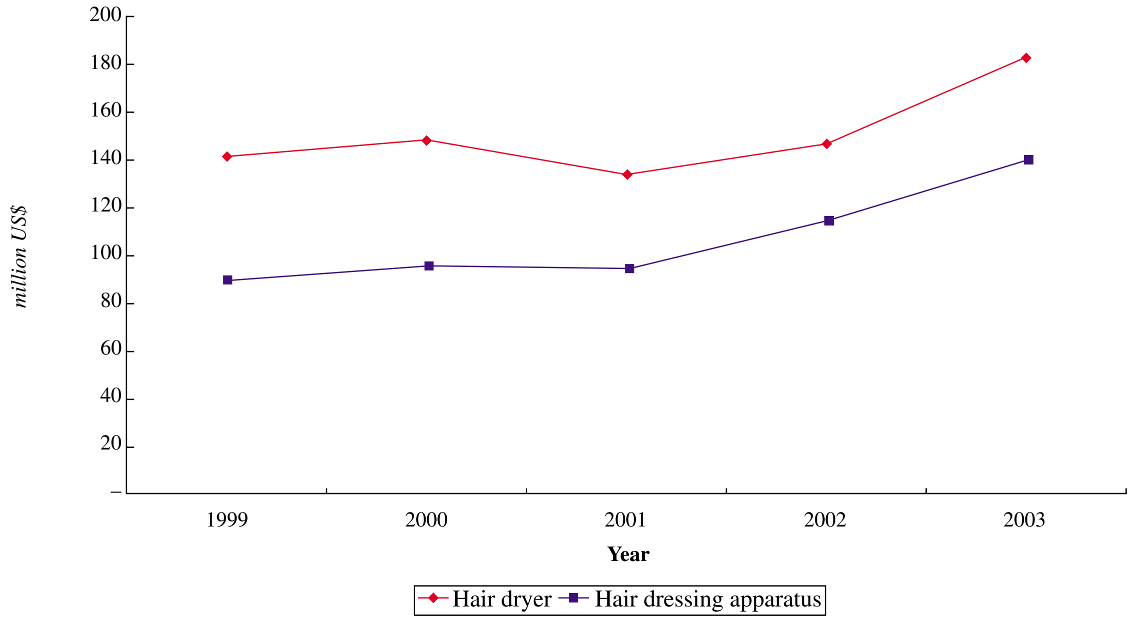
OVERVIEW OF ELECTRICAL HAIR CARE PRODUCTS INDUSTRY

According to the Hong Kong Trade Development Council, from 1998 to 2002, the hair dryer sector grew by approximately 11.4% in unit sales in the United Kingdom while the US market also showed a general increasing sales trend. The expansion of the hair sector is mainly attributed to the innovative features of hair dryers. The major application of the hair dryer is to dry hair in a short time. Future development in hair dryers would focus on the ability to, not only dry hair, but also retain or even improve hair quality.

In addition to the enhancement in the functionality, the design and styling of hair dryers are also essential. Pro-style model with long lasting AC motors and heavy-duty cords, which were once the symbols of salon, are now making their way to the more pro-look of chrome and other metallised finished hair dryers. Reduction in weight and size with folding and shock protected handles is becoming more popular.

EXPORTS OF ELECTRICAL HAIRCARE PRODUCTS FROM THE PRC

Total exports of hair dryers and hair dressing apparatus from China from 1999 to 2003



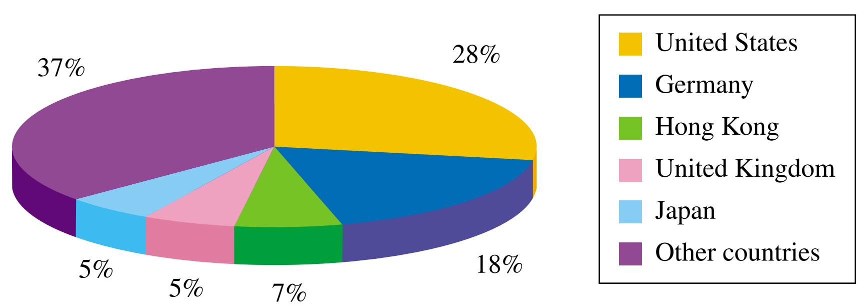
Source: based on information from Hong Kong Trade Development Council, which in turn is extracted from the World Trade Atlas.

According to the information from the Hong Kong Trade Development Council, which in turn is extracted from the World Trade Atlas, from 1999 to 2003, the total exports of hair dryers from the PRC had grown by approximately 30% from approximately US$141 million to approximately US$183 million while the total exports of hair dressing apparatus from the PRC grew by approximately 56% from approximately US$90 million to approximately US$140 million, representing compound annual growth rates of 6.6% and 11.8% respectively.

In 2003, the total exports of electro-thermic hair dryers and electro-thermic hair dressing apparatus from the PRC were approximately US$183 million and approximately US$140 million respectively. The breakdowns by geographical area of the total exports of electro-thermic hair dryers and elector-thermic hair dressing apparatus from the PRC in 2003 are shown in the following diagrams:

Total exports of electro-thermic hair dryers from the PRC to overseas markets in 2003

Area	*Million US$*	**Ranking**
United States	51	1st
Germany	33	2nd
Hong Kong	12	3rd
United Kingdom	10	4th
Japan	10	5th
Other countries	67	
Total	183	

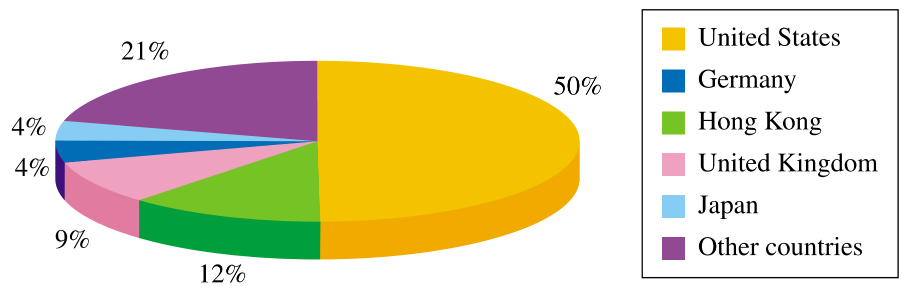


Source: based on information from Hong Kong Trade Development Council, which in turn is extracted from the World Trade Atlas.

According to the information from the Hong Kong Trade Development Council, which in turn is extracted from the World Trade Atlas, as far as only electro-thermic hair dryers are concerned, the top five markets for exports from the PRC in 2003 were the United States, Germany, Hong Kong, the United Kingdom and Japan, which collectively accounted for approximately 63% of the total exports of hair dryers from the PRC in terms of monetary value.

Total exports of electro-thermic hair dressing apparatus from the PRC to overseas markets in 2003

Area	*Million US$*	**Ranking**
United States	70	1st
Hong Kong	17	2nd
United Kingdom	12	3rd
Japan	6	4th
Germany	5	5th
Other countries	30	
Total	140	

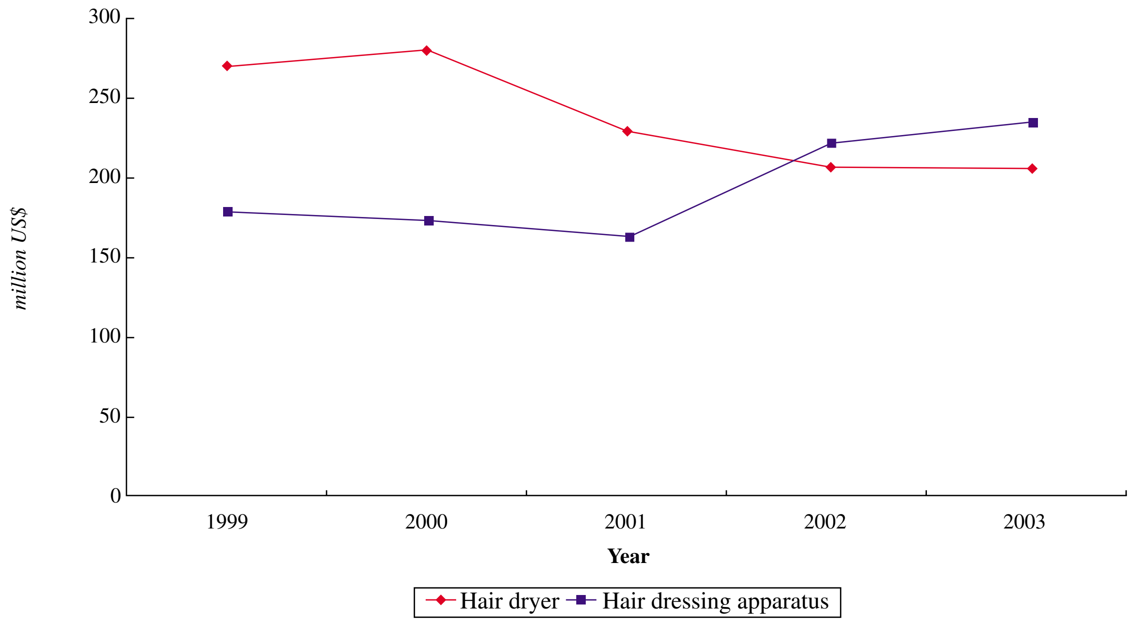


Source: based on information from Hong Kong Trade Development Council, which in turn is extracted from the World Trade Atlas.

As far as only electro-thermic hair dressing apparatus is concerned, the top five markets of the exports from the PRC in 2003 were the United States, Hong Kong, the United Kingdom, Japan, and Germany, which collectively accounted for approximately 79% of the total exports of hair dressing apparatus from the PRC in terms of monetary value.

EXPORTS OF ELECTRICAL HAIRCARE PRODUCTS FROM HONG KONG

Total exports of electro-thermic hair dryers and hair dressing apparatus from Hong Kong from 1999 to 2003



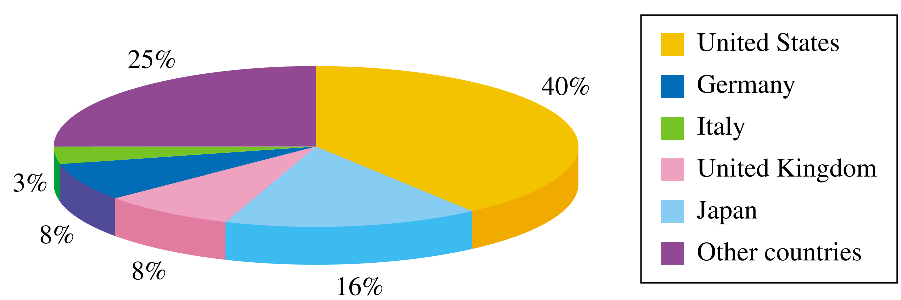
Source: based on information from Hong Kong Trade Development Council, which in turn is extracted from the World Trade Atlas.

According to the information from the Hong Kong Trade Development Council, which in turn is extracted from the World Trade Atlas, from 1999 to 2003, the total exports of electro-thermic hair dryers from Hong Kong has dropped by approximately 24% from approximately US$270 million to approximately US$206 million while the total exports of electro-thermic hair dressing apparatus from the Hong Kong has grown by approximately 31% from approximately US$180 million to approximately US$235 million.

In 2003, the total exports of electro-thermic hair dryers and electro-thermic hair dressing apparatus from Hong Kong were approximately US$206 million and approximately US$235 million respectively. The breakdowns by geographical area of the total exports of electro-thermic hair dryers and electro-thermic hair dressing apparatus from Hong Kong in 2003 are shown in the following tables:

Total exports of electro-thermic hair dryers from Hong Kong to overseas markets in 2003

Area	*Million US$*	**Ranking**
United States	82	1st
Japan	32	2nd
United Kingdom	17	3rd
Germany	16	4th
Italy	7	5th
Other countries	52	
Total	206	

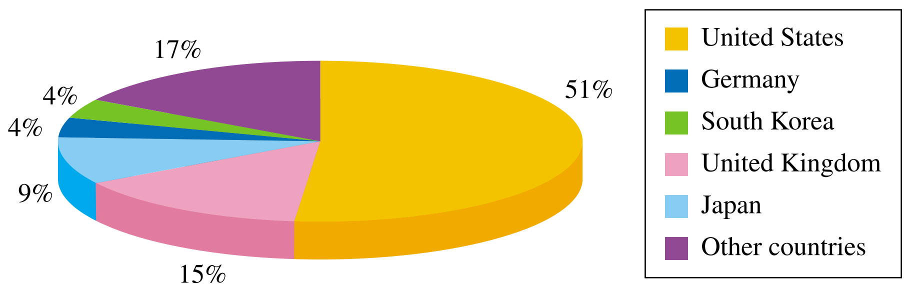


Source: based on information from Hong Kong Trade Development Council, which in turn is extracted from the World Trade Atlas.

According to the information from the Hong Kong Trade Development Council, which in turn is extracted from the World Trade Atlas, as far as only electro-thermic hair dryers are concerned, in 2003, the top five markets of the exports in 2003 from Hong Kong were the United States, Japan, the United Kingdom, Germany and Italy, which collectively accounted for approximately 75% of the total exports of electro-thermic hair dryers from Hong Kong in terms of monetary value.

Total exports of electro-thermic hair dressing apparatus from Hong Kong to overseas markets in 2003

Area	*Million US$*	**Ranking**
United States	121	1st
United Kingdom	35	2nd
Japan	22	3rd
South Korea	9	4th
Germany	9	5th
Other countries	39	
Total	235	



Source: based on information from Hong Kong Trade Development Council, which in turn is extracted from the World Trade Atlas.

As far as only electro-thermic hair dressing apparatus is concerned, the top five markets of the exports from Hong Kong in 2003 were the United States, the United Kingdom, Japan, South Korea and Germany, which collectively accounted for approximately 83% of the total exports of electro-thermic hair dressing apparatus from Hong Kong in terms of monetary value.

OUTLOOK OF THE ELECTRICAL APPLIANCES INDUSTRY

According to an article published by the Hong Kong Trade Development Council on 8th November, 2004, competitions and threats in recent years from other developing Asian suppliers, especially the PRC, has been rising, initially in terms of price, later in quality and other aspects over time for the electrical appliances industry. Particularly in the case of simple appliances involving lesser technological input and high labour cost, local manufacturers have been subject to fierce competition from Southeast Asian suppliers and PRC enterprises.

Against this background, Hong Kong companies have enhanced their value-adding. While maintaining their OEM production, they have focused more on ODM business, rendering increased value-added services to overseas customers. Although this would normally require more investment in aesthetic and technical designs than OEM production, developing ODM business is deemed to be an important strategy for Hong Kong companies to enhance their competitiveness. The most important attribute of their success in ODM business is product design and development capability, while knowledge of world product trends and different consumer preferences in different markets are also their edge.

As more design works are being undertaken by Hong Kong companies, there is a tendency of overseas importers to shift liabilities arising from defective products to local manufacturers and traders. It has thus become increasingly critical for Hong Kong exporters to observe laws and regulations in relation to consumer protection and product liabilities in overseas markets. Stricter governmental energy and environmental standards are being phased in over several years. Compliance with various standards will require some products redesign.

Meanwhile, the fast changing consumer pattern has resulted in low inventory levels in major export markets, requiring quick response for inventory replenishment. Product life cycles have also shortened, leading to the need for more frequent changes to product feature and cosmetic design. In this respect, Hong Kong companies are well known for their adaptability and responsiveness to rapidly evolving consumer tastes. They have constantly upgraded their capability in aesthetic design and the production of fashion products. Technology such as the three-dimension computer aided industrial design is applied to enhance design capability, and rapid prototyping is adopted to shorten product development time. Some companies also re-engineer their procurement and production management systems, in a bid to shorten delivery lead time.

According to The Strategic Road Map for Future Development of Hong Kong Electrical Appliances Industry* jointly released by Hong Kong Electrical Appliances Manufacturers Association and Hong Kong Productivity Council in December 2003, Hong Kong has acted as the ODM contractor for overseas companies for decades; however, Hong Kong has not been able to take over the service activities that have been going on overseas. Buyers in developed countries have managed to stay one step ahead of Hong Kong manufacturers.

* *The first edition of The Strategic Road Map for Future Development of Hong Kong Electrical Appliances Industry is jointly released by Hong Kong Electrical Appliances Manufacturers Association and Hong Kong Productivity Council and it was first published in December 2003*

Hong Kong exporters are therefore continually compelled to develop strategies that help them stay ahead of competitors. Plant relocation provides a solution for Hong Kong companies in controlling their production cost, other practices such as quality control and flexibility also strengthen their competitive advantage. However to take a major leap, additional strategies need to be employed. One of the promising solutions is to expand the grip along the value chain by moving towards front and back-end activities such as design, wholesale, retail and brand management, which usually entails higher value-adding.

Moreover, acquisition of an existing brand is another strategy which involves investing fewer resources to build up a new brand in the market. In addition, the PRC is a large internal market. Local manufacturers can build up a new brand for the internal market before moving overseas with an established brand name.

Currently, relatively few Hong Kong companies are involved in the OBM business. This is probably due to the fact that most Hong Kong companies are primarily small and medium sized companies which may have limited resources and internal expertise to develop brands since brand development and manufacturing require dissimilar operating and management skills. It involves expertise in product design, retailing, marketing, logistic management and distribution which companies that used to focus only on manufacturing may not have the relevant expertise. Therefore, few companies have involved themselves in OBM.

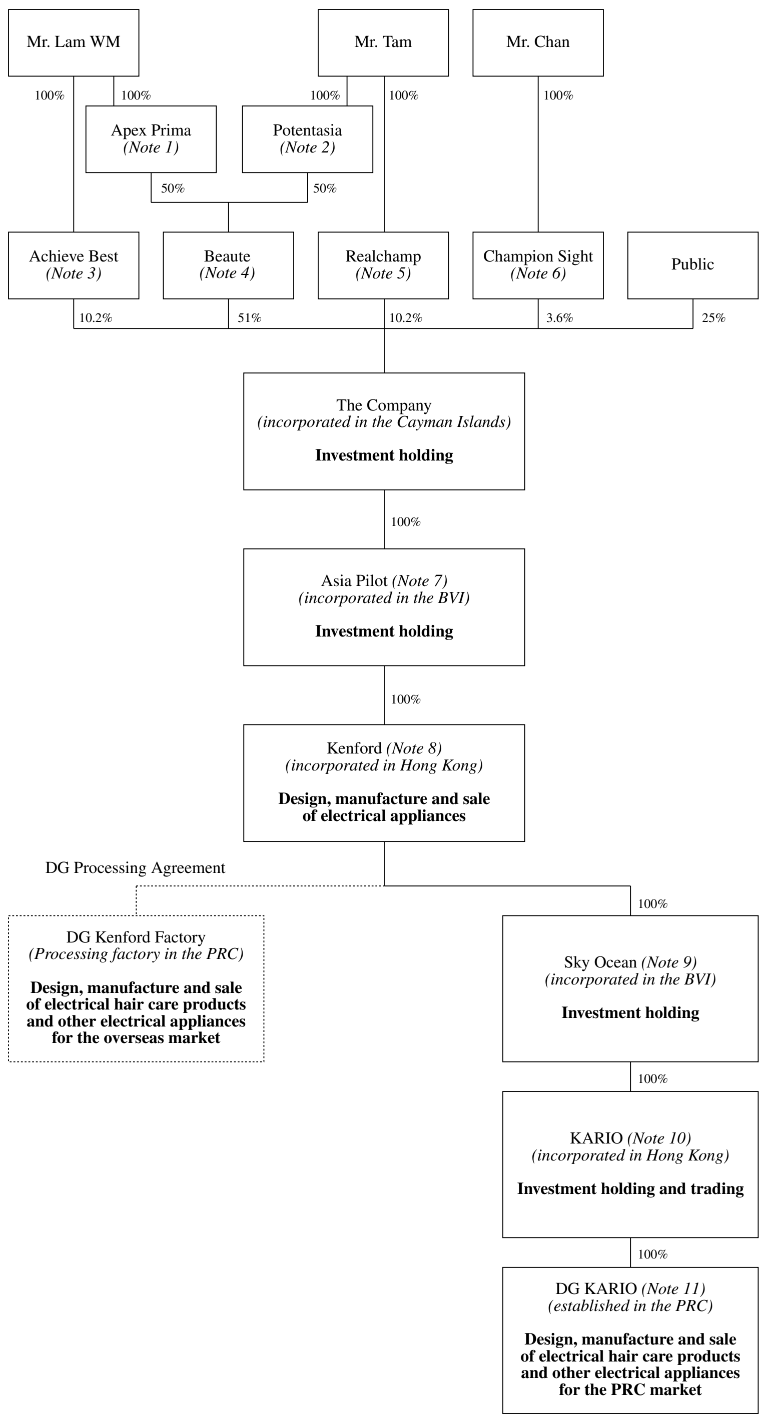
As the beacon of the industry's direction, more manufacturers recognise that developing brand names could enhance the competitiveness of a company, as brand building helps create a unique identity and quality image. Hong Kong companies, by migrating to OBM, may differentiate their products with those of competitors, in that it provides a basis for manufacturers to achieve higher profit margin and lessen the dependence on individual overseas buyers.

REGULATORY REQUIREMENTS, EXPORT QUOTA AND IMPORT DUTY

There is no export quota for the Group's export products manufactured in the PRC. For those products exported by the Group on FOB and CIF basis, the Group is not necessary to incur any import duty.

SHAREHOLDING AND CORPORATE STRUCTURE OF THE GROUP

The following chart shows the shareholding and corporate structure of the Group, the place of incorporation/establishment and the principal business activities of each member of the Group immediately after the Share Offer and the Capitalisation Issue:



Notes:

1. Apex Prima is a company incorporated in the BVI with limited liability and an investment holding company, the entire issued share capital of which is beneficially owned by Mr. Lam WM. Mr. Lam WM holds 50% interest in Beaute through Apex Prima.

2. Potentasia is a company incorporated in the BVI with limited liability and an investment holding company, the entire issued share capital of which is beneficially owned by Mr. Tam. Mr. Tam holds 50% interest in Beaute through Potentasia.

3. Achieve Best is a company incorporated in the BVI with limited liability and an investment holding company, the entire issued share capital of which is beneficially owned by Mr. Lam WM. Achieve Best directly holds 10.2% interest in the Company.

4. Beaute is a company incorporated in the BVI with limited liability and an investment holding company which is owned as to 50% by Apex Prima and 50% by Potentasia. Mr. Lam WM and Mr. Tam are taken to be interested in 51% of the issued share capital of the Company that Beaute is interested.

5. Realchamp is a company incorporated in the BVI with limited liability and an investment holding company, the entire issued share capital of which is beneficially owned by Mr. Tam. Realchamp directly holds 10.2% interest in the Company.

6. Champion Sight is a company incorporated in the BVI with limited liability and an investment holding company, the entire issued share capital of which is beneficially owned by Mr. Chan. Champion Sight directly holds 3.6% interest in the Company.

7. Asia Pilot is a company incorporated in the BVI with limited liability and an investment holding company which is wholly-owned by the Company and directly holds the entire issued share capital of Kenford.

8. Kenford is a company incorporated in Hong Kong with limited liability and is indirectly wholly-owned by the Company through Asia Pilot. The principal activities of Kenford are the design, manufacture and sale of electrical appliances to overseas markets.

9. Sky Ocean is a company incorporated in the BVI with limited liability and an investment holding company which is an indirect wholly-owned subsidiary of the Company and directly holds the entire issued share capital of KARIO.

10. KARIO is a company incorporated in Hong Kong with limited liability and is an indirect wholly owned subsidiary of the Company. KARIO is a trading and investment holding company and its principal asset is its interest in DG KARIO.

11. DG KARIO is a wholly foreign-owned enterprise established under the laws of the PRC with limited liability and is wholly owned by KARIO. The principal activities of DG KARIO are the design, manufacture and sale of electrical hair care products and other electrical appliances such as coffee makers and juicers in the PRC market at present.

HISTORY AND DEVELOPMENT

Incorporation of Kenford

Kenford, one of the operating subsidiaries of the Group, was established in Hong Kong with limited liability in 1984. Kenford has been engaging in the design, manufacture and sale of electrical appliances (principally electrical hair care products) to overseas markets. The Group was founded by Mr. Lam WM and Mr. Tam upon the acquisition of an aggregate of 50% interest in Kenford by Mr. Lam WM in 1989 and the acquisition of 20% and 30% interest in Kenford by Mr. Tam in 1991 and 1993 respectively. Since then, Kenford has been beneficially owned by Mr. Lam WM and by Mr. Tam in equal shares. Mr. Lam WM and Mr. Tam have been the directors of Kenford and have been responsible for overseeing the daily operation of Kenford, including the design, manufacture, sales and marketing units of Kenford.

Processing arrangement in the PRC

Processing arrangement in Shenzhen

On 18th August, 1989, Kenford entered into the Shenzhen Processing Agreement with 深圳市寶安縣對外貿易公司 (Shenzhen City Baoan County Foreign Trade Company) and Shenzhen Processing Factory, in relation to a processing arrangement for the manufacture (through the Shenzhen Processing Factory situated at Fenghuang Gang Industrial Village, Xixiang Town, Baoan, Shenzhen, the PRC) of Kenford's electrical products pursuant to the Shenzhen Processing Agreement. The Shenzhen Processing Agreement was subsequently terminated by the Termination Agreement as described in the sub-paragraph headed "Processing arrangement in Dongguan" below.

Terms of the processing arrangement pursuant to the Shenzhen Processing Agreement:

Foreign party	:	Kenford
PRC party	:	深圳市寶安縣對外貿易公司 (Shenzhen City Baoan County Foreign Trade Company), the owner/operator of Shenzhen Processing Factory and an Independent Third Party
Duration	:	From 18th August, 1989 to 18th August, 1994
Primary responsibilities	:	(i) Kenford shall provide the necessary manufacturing facilities, raw materials, ancillary materials and packaging materials for processing and production;

(ii) the PRC Party shall provide premises of 1,000 sq.m. for manufacturing for which Kenford shall pay HK$ 13,000 per month and shall pay RMB 15 per sq.m. per month after 18th August, 1994;

(iii) the PRC Party shall provide the existing electricity and water supply facilities of the factory premises and labour for processing and production. The finished products are delivered to Kenford; and

(iv) Kenford shall provide technical personnel to the processing factory to assist in assembling the manufacturing facilities and provide technical support. Salaries and all other related expenses incurred by these technical personnel are to be borne by Kenford.

Delivery of raw materials and finished products	:	Kenford shall deliver the raw materials and packaging materials required for production to the processing factory 5 days before processing a particular batch of products. The processing factory shall deliver the finished products according to the schedules, qualities and quantities as agreed between Kenford and the PRC party.
Processing fee	:	The first annual processing fee was HK$600,000 which shall be payable by Kenford to the PRC party. Within the trial production period, Kenford shall pay processing fee of HK$500 for each employed worker per month. After the trial production period, Kenford shall pay processing fee of HK$600 for each employed worker per month. The processing fee shall be adjusted with appreciation of price index. After 18th August, 1994, Kenford shall pay processing fee of HK$700 for each employed worker per month, which shall be adjusted every three years.
Transportation costs	:	Kenford shall bear the costs for the transportation of the manufacturing facilities, raw materials, packaging materials and finished goods.

Insurance	:	Kenford shall maintain insurance for the raw materials, packaging materials and the finished goods during the course of transportation, and for the manufacturing facilities, the raw materials, packaging materials stored in the processing factory.
Termination	:	The Shenzhen Processing Agreement may be terminated or extended by either party by serving to the other at least 3 months' prior notice, subject to the negotiations between the parties and the approval by the relevant authorities.

On 7th June, 1994, the Shenzhen Processing Agreement was extended to 18th August, 1999 by a supplemental agreement signed by (i) 深圳市寶安區西鄉鎮鳳凰崗經濟發展公司 (Shenzhen City Baoan District Xixiang Town Fenghuang Gang Economic Development Company) (as the PRC party), (ii) the Shenzhen Processing Factory (as the PRC party), (iii) 深圳市寶安區外經服務公司 (Shenzhen City Baoan District Foreign Economic Service Company, which was subsequently renamed as 深圳市寶安外經發展有限公司 (Shenzhen City Baoan Foreign Economic Development Company Limited)) as the agent to the PRC party, and (iv) Kenford, while 深圳市寶安縣對外貿易公司 (Shenzhen City Baoan County Foreign Trade Company) was no longer a party to the Shenzhen Processing Agreement.

In July 1999, the Shenzhen Processing Agreement was extended to 18th August, 2001 by a supplemental agreement signed by (i) 深圳市寶安區西鄉鎮鳳凰崗經濟發展公司 (Shenzhen City Baoan District Xixiang Town Fenghuang Gang Economic Development Company) (as the PRC party), (ii) the Shenzhen Processing Factory (as the PRC party), (iii) 深圳市寶安區外經服務公司 (Shenzhen City Baoan District Foreign Economic Service Company, which was subsequently renamed as 深圳市寶安外經發展有限公司 (Shenzhen City Baoan County Foreign Trade Company)) as the agent to the PRC party, and (iv) Kenford.

Based on the documents provided by the Company, the PRC legal adviser to the Company confirmed that the Shenzhen Processing Agreement was legally effective upon the signed parties therein.

Processing arrangement in Dongguan

On 15th December, 1995, Kenford entered into a further processing arrangement with 東莞市常平鎮外經實業公司 (Dongguan Changping Town Foreign Economic Industrial Company) pursuant to the DG Processing Agreement with a view to further expanding its production capacity and in the design and manufacturing of electrical products through the DG Kenford Factory situated at Xiakeng Village, Changping Town, Dongguan, Guangdong Province, the PRC.

In 1997, the construction of the DG Kenford Factory commenced. In 1999, the construction of the DG Kenford Factory was completed and thereafter the production machineries of the Shenzhen Processing Factory was relocated in phases to the DG Kenford Factory mainly from the calendar years of 2000 to 2002. The production of the DG Kenford Factory commenced in 2000 and the production of the Shenzhen Processing Factory had been faded out completely by the end of the calendar year 2000 in order that both factories could be in operation during the transitional period so as to minimize the disturbance on the Group's business. After the machineries of the Shenzhen Processing Factory had already been relocated to the DG Kenford Factory and on 19th May, 2003, Kenford entered into a termination agreement ("Termination Agreement") with 深圳市寶安區西鄉鎮鳳凰崗經濟發展公司 (Shenzhen City Baoan District Xixiang Town Fenghuang Gang Economic Development Company), 深圳市寶安區西鄉鎮經濟科技發展辦公室 (Shenzhen City Baoan District Xixiang Town Economy and Science Development Office, a local governmental department in charge of local processing affairs), 深圳市寶安外經發展有限公司 (Shenzhen City Baoan Foreign Economic Development Company Limited) and Shenzhen Processing Factory for the settlement of rights and duties under the Shenzhen Processing Agreement and termination of the processing arrangement under the Shenzhen Processing Agreement. The Termination Agreement was approved by 深圳市寶安區經濟貿易局 (Shenzhen City Baoan District Economy and Trade Bureau) on 27th May, 2003. The PRC legal adviser to the Company is of the view that the Termination Agreement is legal, valid and enforceable against the parties thereto. Accordingly, the Group had abandoned its occupancy rights in the factory premises provided by the PRC party under the Shenzhen Processing Agreement in May 2003. The Termination Agreement provided that the rights and liabilities between the parties to the Shenzhen Processing Agreement had been settled. On such basis, the Directors confirmed that there should be no contingent liabilities or reinstatement cost arising from the abandonment of the Group's occupancy rights in the Shenzhen Processing Factory. The Directors attribute the time lag between the cessation of operation in 2001 and the Termination Agreement in May 2003 to the time needed for governmental procedures concerning surrendering of the relevant PRC customs contract of Shenzhen Processing Factory to Shenzhen Economical Development Council for cancellation and exhaustion purpose.

In April 2003, in view of the termination of the Shenzhen Processing Agreement, the Group also ceased to occupy another factory premises (the "Additional Factory Premises") of the Shenzhen Processing Factory, which were built by the Group on a piece of collectively-owned land of approximately 1300 sq m. provided by 寶安縣新安鎮鳳凰崗經濟發展公司 (Baoan County Xinan Town Fenghuang Gang Economic Development Company) to the Group to use for a term of 20 years pursuant to a contract for investment and factory construction (投資建廠合同) dated 25th March, 1992 (the "Factory Construction Contract"), and sublet the same to an Independent Third Party for the remaining term of approximately 9 years up to 25th March, 2012. The sub-lessee has agreed to punctually pay the management fee (which, as confirmed by the Directors, is intended by the parties to include the land use fee of RMB6,400 per month payable by the Group under the Factory Construction Contract for the remaining term) and other fees levied by 鳳凰崗村委 (Fenghuang Gang Village Committee) and the relevant departments in accordance with the relevant requirements. The Directors do not envisage any material adverse impact arising from the abandonment of the Group's occupancy rights on, and the subsequent sub-lease arrangement on, the aforesaid collectively-owned land.

Terms of the processing arrangement pursuant to the DG Processing Agreement

Foreign party	:	Kenford
PRC party	:	東莞市常平鎮外經實業公司 (Dongguan Changping Town Foreign Economic Industrial Company), the owner/operator of DG Kenford Factory and an Independent Third Party
Duration	:	From 15th December, 1995 to 15th December, 2000 and subsequently extended to 14th December, 2010 pursuant to the supplemental agreement dated 23rd August, 2000
Primary responsibilities	:	(i) Kenford shall provide all the necessary manufacturing facilities, raw materials, ancillary materials and packaging materials for processing and production; (ii) the PRC Party shall provide electricity supply and labour for processing and production. The finished products are delivered to Kenford; and (iii) Kenford shall provide technical personnel to the processing factory to assist in assembling the manufacturing facilities and provide technical support. Salaries and all other related expenses incurred by these technical personnel are to be borne by Kenford. The DG Processing Agreement does not explicitly state which party is responsible for providing the land and building for the production process. In reality, Kenford has been providing the use of the land and buildings for the production process.
Delivery of raw materials and finished goods	:	Kenford shall deliver the raw materials required for production to the processing factory 15 days before processing a particular batch of products. The processing factory shall deliver the finished products according to the schedules, time, quantities and specifications as agreed between Kenford and the PRC party.

Processing fee : The processing fee shall be determined by the parties upon signing of the relevant production agreement made with reference to the sample of the relevant product or after trial production of such product. The initial annual processing fee shall be RMB3,500,000 with an annual increment of not less than 10%. The processing fee of the processing arrangement shall be negotiated and agreed by the parties according to the samples or trial production based on the principle of mutual benefit when each production contract has been signed. Kenford shall pay a sum to 東莞市常平鎮外經實業公司 (Dongguan Changping Town Foreign Economic Industrial Company) on the basis of HK$600 per employed worker/month during the period of trial production. The PRC legal advisor to the Company is of the view that it is not clear in the DG Processing Agreement (i) what constituted the period of trial production for the purpose of determining the processing fee; and (ii) whether the trial production referred to that of (a) DG Kenford Factory itself or (b) each production contract and such deficiency may give the right to the PRC party to charge Kenford the processing fee at a rate not less than HK$1,000 per employed worker/month (based on 26 working day, 8 hours a day). As confirmed by the Company, in practice and up to the Latest Practicable Date, the first three-month production period relating to the first production contract of DG Kenford Factory was treated as the trial production period and Kenford paid the processing fee at the rate of HK$600 per worker per month for 100 workers during such period. After the period of trial production, the processing fee shall not be less than HK$800 per employed worker/month (based on 26 working days, 8 hours/day) according to the number of workers in the factory. As supplemented by a supplemental agreement entered into by the parties to the DG Processing Agreement in August 2000, the DG Processing Agreement provides that the processing fee shall be not less than HK$1,000 per employed worker/month (based on 26 working days, 8 hours/day). The PRC legal advisor to the Company is of the view that the PRC party shall have the right to charge for the higher of (i) the processing fee calculated based on each employed worker or (ii) RMB3,500,000 for the first year with an annual increment of not less than

		10%, but subject to there is no other agreed sum decided through negotiation between the two parties based on the principle of mutual benefits according to the samples or trial production when each production contract has been signed.
Transportation costs	:	Kenford shall bear the costs for the transportation of the raw materials or finished goods between the processing factory and Hong Kong.
Insurance	:	Kenford shall maintain all-risks insurance for the raw materials, packaging materials and the finished goods during the course of transportation, and fire and product insurance for the manufacturing facilities, the raw materials, ancillary materials, packaging materials, products and finished goods in the processing factory.
Termination	:	Six months before the expiry date of the DG Processing Agreement on 14th December, 2010, the two parties shall decide through friendly negotiation to extend or terminate the DG Processing Agreement when it expires.

Save as disclosed above, there are no other operating costs explicitly required to be incurred by the Group under the DG Processing Agreement. However, due to mutual negotiation between the parties, the Group had been reimbursing costs of staff benefit, custom duties, enterprise income tax and other China levies, electricity and certain other utilities costs, wages (wages if processing fee is not sufficient to cover) and other costs considered immaterial by the Directors for the DG Kenford Factory. Other than that, there is no other key arrangement for the operation of DG Kenford Factory under the DG Processing Agreement. Based on the documents provided by the Company, the PRC legal adviser to the Company confirms that the DG Processing Agreement is legally effective upon the signed parties therein.

Should the DG Kenford Factory cease to manufacture products for Kenford, the Group may (i) shift the manufacturing process to DG KARIO (which is entitled to carry on both export sales and domestic sales activities details of which are set in the sub-section headed "KARIO and DG KARIO") or (ii) outsource the manufacturing process to its sub-contractors which will be engaged to manufacture products for Kenford.

To the best knowledge of the PRC legal adviser to the Company, and based on the documents provided by the Company, the PRC legal adviser to the Company confirms that the Enlarged Group (to the extent of the Enlarged Group's PRC operation) have complied with all relevant PRC laws and regulations and have obtained all the necessary PRC approvals, permits and licences from the relevant PRC governmental authorities.

Disposal of subsidiaries and associates

During the Track Record Period, the Group disposed of certain subsidiaries and associates, namely, Smart Host International Development Limited (with net deficit of HK$10.8 million as at 31st March, 2003), Union Nice Limited (with net deficit of HK$9.7 million as at 31st March, 2003) and Unix Electronics (HK) Limited. The basis of consideration for disposal of these subsidiaries and associates of the Group was at par value and the total consideration for each of Smart Host International Development Limited, Union Nice Limited and Unix Electronics (HK) Limited was HK$2, HK$2 and HK$1,000,000 respectively. On such basis, and given that the net assets values of these subsidiaries were negative and the net assets values of the associates were lower than the consideration at the time of disposal, there were gains on disposals of certain subsidiaries and associates of the Group during the Track Record Period. The events leading to the significant disposals of property, plant and equipment of the Group in the year ended 31st March, 2003 were:

(i) disposal of plant and machinery of Kenford to a related party and disposal of and write-off of certain old and obsolete machinery and equipment (comprising fixed assets at cost of HK$48,862,000 and net book value of HK$44,207,000 in total) (to be elaborated in the next paragraph),

(ii) disposal of 100% shareholding interests in Smart Host International Development Limited (comprising an investment property at open market value of HK$3,880,000), and

(iii) disposal of 100% shareholding interests in Union Nice Limited (comprising an investment property at open market value of HK$4,200,000).

As regards point (i) above, during the year ended 31st March, 2003, Kenford disposed of certain machineries at a consideration of approximately HK$1,132,000 to a related party, KARIO.

Mr. Tam, Mr. Lam WM and Mr. Chan were directors and shareholders of KARIO. The Directors confirm that the consideration was determined by mutual agreement between both parties after taking into consideration the then market price of new machineries and the status and working condition of the individual machineries disposed of. This resulted in a gain on disposal under the book of Kenford amounting to approximately HK$568,000. In the same year, the Group also write-off certain old and obsolete machineries and equipments.

Incorporation of KARIO and DG KARIO

On 21st December, 2001, Kenford and Great Incentive established KARIO in Hong Kong as a trading and investment holding company. With a view to expanding its business network and enlarging its customer base to PRC domestic customers, KARIO set up DG KARIO, a wholly foreign owned enterprise established in the PRC, on 21st March, 2002, which has been principally engaged in design, manufacture and sale of electrical hair care products and other electrical appliances such as coffee makers and juicers mainly for sale in the PRC market. Pursuant to the business licence of DG KARIO, DG KARIO is also licensed to export products to overseas markets. The initial registered capital of DG KARIO upon incorporation was US$1,000,000. On 15th December, 2003, the relevant governmental authority approved a reduction of the registered capital of DG KARIO from US$1,000,000 to US$513,000. According to 協誠驗字 (2004) No. 1012 Capital Verification Report by 東莞市協誠會計師事務所 (Dongguan City Xie Cheng Certified Public Accountants), an amount of US$512,534.37 was paid by KARIO as registered capital of DG KARIO. The shortfall of US$465.63 between the paid registered capital of US$512,534.37 and the required registered capital of US$513,000 was due to the conversion of Hong Kong Dollar to US Dollar. Notwithstanding that, Dongguan Industrial and Commerce Bureau issued a business licence on 30th August, 2004 and Dongguan branch of State Administration of Foreign Exchange stated in the Foreign Exchange Certificate on 29th April, 2004 still confirmed that the registered capital has been fully paid up and 東莞市常信會計師事務所 (Dongguan Changxin Certified Public Accountants) issued a confirmation letter on 11th November, 2004 to share the same view. The PRC legal advisor is of the view that the registered capital of DG KARIO has been paid up. On the other hand, KARIO has not paid up the registered capital within the approved time limit (According to 東外經資批字[2002]0372號 Approval Document, KARIO shall pay the first installment of the registered capital before 22nd June, 2002, but KARIO paid it on 3rd December, 2002). Notwithstanding that, the PRC legal adviser to the Company is of the view that it shall not have material adverse impact on the valid existence of DG KARIO, KARIO and/or DG KARIO shall not be imposed any penalty for (1) the shortfall due to the conversion of Hong Kong Dollar to US Dollar, and/or (2) KARIO has not paid up the registered capital within the approved time limit based on the fact that (1) KARIO has fully paid up the registered capital; (2) DG KARIO has passed the annual examination of the year 2003 by Dongguan Industrial and Commerce Bureau and (3) according to Administrative Penalty Law, where an illegal act is not discovered within two years of its commission, administrative penalty shall no longer be imposed.

On 31st March, 2003, Kenford transferred one share, representing 50% of the issued share capital, in KARIO to Mr. Lam WH, the brother of Mr. Lam WM. On the same day, KARIO issued and allotted 4,999, 2,499 and 2,500 new shares in KARIO to Great Incentive, Mr. Lam WH and Mr. Chan respectively. Thereafter, 50% of KARIO became beneficially owned by Great Incentive, 25% by Mr. Lam WH and 25% by Mr. Chan. The Directors confirm that the Group disposed of its interest in KARIO in March 2003 in order to mitigate resources deployment and avoid business risk at the early development stage of DG KARIO during which its business turnover was not substantial. Subsequent to 31st December, 2004 and on 23rd March, 2005, Sky Ocean acquired from Great Incentive, Mr. Lam WH and Mr. Chan the entire issued share capital of KARIO as to 5,000 shares from Great Incentive, 2,500 shares from Mr. Lam WH and 2,500 shares from Mr. Chan and since then, KARIO became a wholly-owned subsidiary of the Group. The Directors confirm that the Group acquired back its interest in KARIO as DG KARIO had passed its early stage of business development and had a more transparent prospect subsequent to December 2004. The Directors further confirm that it is appropriate for DG KARIO to be under the Group as DG KARIO is the only PRC established company which is controlled by the Controlling Shareholders and hence is the only legitimate vehicle to be nominated to hold PRC land and buildings for the Group.

Incorporation of the Company

On 10th November, 2004, the Company was incorporated under the laws of the Cayman Islands.

During November 2004 to March 2005, the Group underwent the Reorganisation in preparation for the listing of the Shares and the Warrants on the Main Board and the Company became the holding company of the Enlarged Group. Details of the Reorganisation are set out in the paragraph headed "Corporate reorganisation" in Appendix VIII to this prospectus.

BUSINESS OVERVIEW

The Group is principally engaged in the design, manufacture and sale of a wide range of electrical hair care products (including hair dryers and hair styling apparatus), electrical health care products (including facial saunas, foot spas and massagers) and other small household electrical appliances (including vacuum cleaners and citrus juicers/mixers). For each of the three years ended 31st March, 2004 and the nine months ended 31st December, 2004, the sale of hair care products accounted for approximately 72%, 75%, 86% and 93% of the turnover of the Group, respectively.

During the Track Record Period, the Group's products were sold on an ODM or OEM basis. The Group's products are manufactured for sale under brand names such as "Remington", "Morphy Richards", "Nicky Clarke", "Vidal Sassoon", "Ufesa", "Unix" and "Princess".

The Group's production facilities are located in Changping Town, Dongguan City, Guangdong Province, the PRC. During the Track Record Period, the Group's finished products were distributed and sold overseas. Products sold to Europe, North and South America and Asia accounted for approximately 73%, 9% and 9% respectively of the turnover of the Group for the year ended 31st March, 2004. As at the Latest Practicable Date, taking into account the workers employed by 東莞市常平鎮外經實業公司 (Dongguan Changping Town Foreign Economic Industrial Company) pursuant to the DG Processing Agreement, there was a workforce of approximately 2,707 staff working for the Group.

The vision of the Group is to become a leading electrical appliances manufacturer in the PRC in terms of production scale and product quality. It is also the mission of the Group to attain total customer satisfaction and maintain a win-win situation with customers on a long-term basis.

PRODUCT MIX

The Group's products can be broadly classified into three main categories, namely, electrical hair care products, electrical health care products and other small household electrical appliances.

Breakdown of the Group's sales turnover by product category during the Track Record Period is set out below:

	Year ended 31st March,						Nine months ended 31st December,	
	2002		**2003**		**2004**		**2004**	
	HK$'000	*%*	*HK$'000*	*%*	*HK$'000*	*%*	*HK$'000*	*%*
Electrical hair care products	209,282	72%	213,564	75%	259,280	86%	357,637	93%
Electrical health care products	45,219	16%	22,330	8%	18,924	6%	12,332	3%
Other small household electrical appliances	35,822	12%	48,988	17%	23,430	8%	13,685	4%
Total	290,323	100%	284,882	100%	301,634	100%	383,654	100%

During the Track Record Period, electrical hair care products were the major product category of the Group.

Electrical hair care products

The Group's electrical hair care products can be divided into two sub-categories, namely, hair dryers and hair styling apparatus. During the Track Record Period, the Group's electrical hair care products were manufactured on an ODM or OEM basis.

- ***Hair dryers***

  The basic components of hair dryers are casing, motors, heating elements, thermostats, power cords and switches.

  The Group's hair dryers comprise traditional hair dryers, ionic hair dryers and ceramic hair dryers. Traditional hair dryers emit only hot air for the purpose of drying hair in a short period of time, whereas (i) ionic hair dryers also emit either positive or negative ions and (ii) ceramic hair dryers also emit far infrared rays for penetration into the hair follicles.

  As an ODM and OEM electrical hair care product manufacturer with renowned multinational client base, the Group has been focusing on the high-end segment of the electrical hair care market. To this end, the Group has launched high-end professional electrical hair care products which were once more commonly used in salons for the mass household markets (particularly in Europe).

  The Group offers a wide array of fashionable electrical hair care products with different styles, features, functionalities, colours, textures, materials. It is the Group's emphasis on the innovation of the design and styling of electrical hair care products that appeals to the demands of different customers. The Directors consider that the engineering and design team of the Group has been strong in the area of design, research and development of electrical hair care products, as demonstrated by the Group's success to patent a vast number of design and/or features which have been built-in in the Group's existing products.

- ***Hair styling apparatus***

  The Group's hair styling apparatus includes hair straighteners and hair curlers. The basic components of hair styling apparatus are casings, motors, heating elements, thermostats, power cords and switches.

Electrical health care products

The Group's electrical health care products comprise facial saunas, steam inhalers, foot spas, massagers and derma cleansers. The basic components of these electrical health care products are casing, motors, heating elements, thermostats, power cords and/or switches.

During the Track Record Period, the Group's electrical health care products were manufactured on an ODM or OEM basis. For the three years ended 31st March, 2004 and the nine months ended 31st December, 2004, the sale of electrical health care products accounted for approximately 16%, 8%, 6% and 3% of the turnover of the Group, respectively.

Other small household electrical appliances

The Group's other small household electrical appliances include but are not limited to rechargeable sweepers, rechargeable vacuum cleaners, ice crushers, coffee makers, table blenders, citrus juicers and meat slicers. The basic components of these other small household electrical appliances are casings, motors, stainless steel cutting blades, heating elements, thermostats, power cords and switches.

During the Track Record Period, the Group's other small household electrical appliances were manufactured on an ODM or OEM basis. After the Track Record Period and the acquisition of the KARIO Group, the Enlarged Group commenced to manufacture and sell its "KARIO" branded products on an OBM basis. For the three years ended 31st March, 2004 and the nine months ended 31st December, 2004, the sale of other small household electrical appliances accounted for approximately 12%, 17%, 8% and 4% of the turnover of the Group, respectively.

SALES AND MARKETING

Market

The Group's products are mainly sold to customers with headquarters based in Europe, North and South America and Asia. During the Track Record Period, some of the Group's customers represented popular multinational , European or Asian brandnames such as "Remington", "Morphy Richards", "Nicky Clarke", "Vidal Sassoon", "Ufesa", "Unix" and "Princess".

Breakdown of the Group's sales turnover by geographical region during the Track Record Period is set out below:

	Year ended 31st March,						Nine months ended 31st December,	
	2002		2003		2004		2004	
	HK$'000	%	*HK$'000*	%	*HK$'000*	%	*HK$'000*	%
Europe	225,922	78%	215,203	76%	220,507	73%	289,267	75%
North and South America	27,279	9%	24,408	9%	26,506	9%	26,117	7%
Asia	20,036	7%	38,057	13%	28,628	9%	28,588	8%
Australia	8,016	3%	3,565	1%	19,625	7%	31,035	8%
Africa	9,070	3%	3,649	1%	6,368	2%	8,647	2%
Total	290,323	100%	284,882	100%	301,634	100%	383,654	100%

During the Track Record Period, all products manufactured by the Shenzhen Processing Factory and the DG Kenford Factory were for export to the Group's overseas markets. The Group's sales to overseas customers are mainly denominated in US dollars.

Sales

The Group carries out its sales and distribution activities through the sales and marketing team working for the Group. The Group secures its overseas orders by establishing confidence and reputation in the Group's products, assurance of quality, reasonable and competitive pricing and maintaining long-term relationship with overseas customers. In addition, the Group has participated in various exhibitions in Hong Kong and overseas to promote the Group's products to overseas customers. Furthermore, business visit, new product presentation and briefing and video conference have been carried out by the Group to potential overseas customers which may have branch office in Hong Kong.

As regards product delivery to overseas customers, the Group exports its finished products by way of cargo shipping on a FOB basis (which is covered by inland transit insurance) and on CIF basis. The Group exports its products primarily via Shenzhen port(s) and Hong Kong port. The Directors estimate that the lead time from placing a purchase order by an overseas customer to the delivery of the first batch of finished product by the Group takes around 45 days to 60 days in general (subject to the size and the type of the order, the location of the customers and the availability of raw materials).

Customers

For each of the three years ended 31st March, 2004 and the nine months ended 31st December, 2004, sales to the five largest customers of the Group's business accounted for approximately 53%, 48%, 59%, and 68% of the Group's total turnover respectively. For each of the three years ended 31st March, 2004 and the nine months ended 31st December, 2004, the largest customer of the Group accounted for approximately 19%, 11%, 17%, and 37% of the Group's total turnover respectively. None of the Directors, their associates or any Shareholder, who or which to the knowledge of the Directors owns more than 5% of the issued share capital of the Company immediately upon completion of the Share Offer and the Capitalisation Issue, had any interest in any of the Group's five largest customers during the Track Record Period. For the nine months ended 31st December, 2004, the Group's five largest customers were group companies of Rayovac Corporation, Glen Dimplex Group, ALBA Plc Group, Helen of Troy Limited and BSH Group, being wholesalers or distributors of, amongst others, Remington, Morphy Richards, Nicky Clarke, Vidal Sassoon and Ufesa branded products respectively.

Although the Group has not entered into any long-term sales contract with its customers, the Directors consider that the Group has good business relationship with its customers. The Group has maintained business relationships with its five largest customers for the nine months ended 31st December, 2004 for not less than three years each, out of which three have maintained no less than five years' business relationship with the Group.

Internal control on credit sales and trade receivables

Sales settlement is carried out by way of (i) documentary credit (for 0 to 90 days in general) and (ii) open account trade (for 14 to 60 days in general) for overseas customers. Credit terms offered to overseas customers by the Group vary depending on the Group's assessment of the reputation of the customer, the length of business relationship established with the Group and the actual size of order placed by the customer.

For each of the three years ended 31st March, 2004 and the nine months ended 31st December, 2004, the debtors' turnover days of the Group were 14 days, 24 days, 32 days and 27 days respectively. Comparing to the normal credit period extended to the Group's customers ranging from 14 days to 90 days, the relatively low debtors' turnover days for the three years ended 31st March, 2004 were due to slack season generally in the beginning of every calender year. However, the debtors' turnover days for the year ended 31st March, 2004 was higher than that for the year ended 31st March, 2003 since the sales turnover had been kept increasing during the year. The Directors attribute the decrease of the debtors' turnover days from 32 days for the year ended 31st March, 2004 to 27 days for the nine months ended 31st December, 2004 to the prompt and rapid repayments made by customers for sales made during the nine months ended 31st December, 2004.

The Directors have exercised prudent financial risk control over the business of the Group. Notwithstanding that the Group's credit sales are partly settled by way of letter of credit, the Directors have taken steps to mitigate the relevant credit sales risk from the remaining trade receivables by way of maintaining a credit insurance from an AA-rated French-based insurance company to cover non-payment risk of 90% of the invoiced values of trade receivable outstanding from certain key customers of the Group from time to time (subject to individual sums insured as agreed) and reviewing the coverage of the credit insurance periodically.

In addition, the Group has been monitoring, from time to time, the extension of credits to its customers. For new customers, the Group normally requires settlement of sales on a cash-on-delivery basis or by letter of credit.

During the Track Record Period, the write-off made on the trade receivables of the Group is set out as follows:

				Nine months ended
		Year ended 31st March,		**31st December,**
	2002	**2003**	**2004**	**2004**
	(HK$'000)	*(HK$'000)*	*(HK$'000)*	*(HK$'000)*
Write-off on trade receivables	26	476	9	5

At the end of each Track Record Period, the Directors reviewed each of the outstanding trade receivable balance on a customer-to-customer basis to assess their recoverability. In order to decide whether a provision for doubtful debts should be made, the Directors have taken into consideration factors such as subsequent settlement information, creditability and past payment history for each of the customers. Due to the low incidence of bad debt, no general provision was made based on aging analysis.

Pricing policy

The prices of the Group's products are determined with primary reference to (i) a cost-plus basis approach and (ii) the demand elasticity of a given product (which in turn is affected by (a) the product features and functionality, (b) the product life cycle and (c) the consumer preference). In arriving at the final price, the Group also takes into account other ancillary factors such as the actual size and time frame of the order, the industry standing of the customer and the relationship with the customer.

Marketing

The Group carries out its marketing activities mainly through the sales team working for the Group. In pursuit of the Group's mission to attain total customer satisfaction, one-stop service is provided by the Group, on a unit account basis, by designating market personnel to each customer. As at the Latest Practicable Date, there were around 21 staff working for the sales and marketing department of the Group.

The Group has been carrying out event marketing as its marketing activities. The Group's event marketing activities comprise the promotion and display of the Group's products by participating in large-scale trade exhibitions and fairs such as the Hong Kong Electronics Fair and Home Tech Trade Fair. In order to keep abreast of the market trends of electrical appliances in terms of styles, features, functionalities, colours, textures, materials and pricing, the Group's sales and marketing department collect market data through participating in local and overseas trade exhibitions and fairs and market data and surveys provided and/or conducted by customers. With a view to formulating a set of common marketing strategies for the benefit of both the Group and its customers, it is the practice of the Group's sales and marketing department, in collaboration with the Group's engineering and design personnel, to form marketing task forces with the Group's customers either on a project basis or on an ongoing basis. Through extensive interaction with its customers, the sales and marketing department of the Group works closely with the Group's customers prior to and upon the launch of the Group's new products, including conceptualisation of innovative designs, selection of materials, creation of prototypes, revision of samples, and negotiation of pricing and orders.

Customer care

The Directors are of the view that the provision of high quality customer care (including after-sales services) is a crucial element to attain total customer satisfaction. The Group's sales and marketing department has been paying courtesy visits to its customers periodically for collecting feedbacks on the level of customer satisfaction on various aspects including product functionality and product quality. Any comments or advice concerning the Group are channelled to the management of the Group for facilitating and improving the future product development of the Group on an ongoing basis. In any event, the success of the Group's product is dependent on the marketability by the Group's ODM and OEM customers to its end users and, accordingly, it is important for the Group to note from and work in tandem with its customers closely with a view to meeting the demands of the end users.

COMPETITION

The Directors envisage that all home electrical appliances manufacturers are, to a certain extent, competitors of the Group. The Group faces competition from manufacturers of electrical appliances around the world. Although the establishment of production facilities with design capability and production capacity and efficiency comparable to those of the Group would require considerable capital investment, the Directors consider that the initial capital required to enter into the industry is not prohibitively high. However, the Directors attribute the Group's competitive strengths to the following:–

- **Renowned and wide ranging customer base**

  The Group has built up a solid and renowned customer base, some of which represent popular multinational, European or Asian brandnames such as "Remington", "Morphy Richards", "Nicky Clarke", "Vidal Sassoon", "Ufesa", "Unix" and "Princess". The solid and renowned customer base together with established customer relationships provide a concrete foundation for the Group to further expand its business and to achieve economies of scale. The wide range of customer base based in different geographical regions also enables the Group to reduce concentration risk of its sales exposure to any particular customer or any material seasonal variation in sales.

- **Registered patents and designs for a diversified product range**

  Endowed with over a decade of industry experience and market awareness, the engineering and design department of the Group has been keeping itself abreast of market changes and has a track record for designing, researching and developing an innovative and trendy array of products on a proactive basis. This can be demonstrated by the 99 successful registrations of patents and designs in Hong Kong, the PRC and overseas by the Group which have been built-in to its existing products. The Group also offers a diversified range of products with different value-added features or functionalities to meet the demands of customers of different demographical origins or consumer preferences.

- **Stringent quality control**

As a consumer product manufacturer, the Group has a strong commitment to quality control. From the very beginning of raw material procurement to the packaging of finished products, the Group imposes intensive quality checks and controls along the whole production line of the Group's manufacturing processes. The quality checks and controls include incoming checks, online checks, random checks and technical checks, which are strictly carried out by the operation department of the Group, as well as by the representatives of the Group's customers as the case may be. The quality management system of the DG Kenford Factory, a factory processing electrical appliances for the Group pursuant to the DG Processing Agreement was accredited with the ISO9001 certificate in October 2001. The Group believes that product quality is of prime concern to the Group's multinational customers. The Group considers that continual adherence to stringent quality control procedures is one of the most vital elements in maintaining long-term business relationships with its multinational customers.

- **Experienced management with expertise in corporate governance and financial risk control**

Mr. Lam WM and Mr. Tam, both being executive Directors, have solid experience in the electrical appliances industry of not less than 20 years. Mr. Lam WM and Mr. Tam are primarily responsible for (i) the sales and marketing affairs and (ii) the production affairs of the Group, respectively. Mr. Chan, being another executive Director, possesses professional qualifications and extensive experience in the banking and finance industry. Mr. Chan is an associate member of both the Chartered Institute of Bankers (UK) and the Hong Kong Institute of Bankers. Mr. Chan is also a fellow member of both The Hong Kong Institute of Company Secretaries and The Institute of Chartered Secretaries and Administrators, United Kingdom. Mr. Chan was also a council member of The Hong Kong Institute of Company Secretaries from August 2000 to July 2002. Given the expertise and background of Mr. Chan, the Group is positioned to be managed with particular focus on corporate governance (including regulatory compliance) and financial risk control (including credit assessment).

- **Decade of operating history and established presence in the industry**

The Group has been engaged in the design, manufacture and sale of small electrical appliances under the management of Mr. Lam WM and Mr. Tam. With over a decade of operating history and industry experience under the management of Mr. Lam WM and Mr. Tam, the Group has established its presence in the market for providing quality electrical appliances to customers. In particular, the Group enjoys not less than three years of business relationships with its five largest customers for the nine months ended 31st December, 2004, out of which three have maintained no less than five years' business relationship with the Group. In view of more than a decade of established history and the standing built up in the industry, the Directors believe that the Group is well positioned to grasp new business opportunities and capture new quality customers.

PRODUCTION

Production facilities

DG Kenford Factory

During the Track Record Period, the production plants of DG Kenford Factory were situated in Dongguan, Guangdong Province, the PRC. The industrial complex of DG Kenford Factory comprises a total of 4 blocks of four to seven-storey buildings and a number of one to two-storey ancillary structures, all of which were completed in December 1999. The industrial complex of DG Kenford Factory is owned by DG KARIO, a wholly foreign owned enterprise established in the PRC which became a wholly-owned subsidiary of the Group on 23rd March, 2005. The total gross floor area of the industrial complex of DG Kenford Factory (excluding the ancillary structures) is approximately 42,538 sq.m..

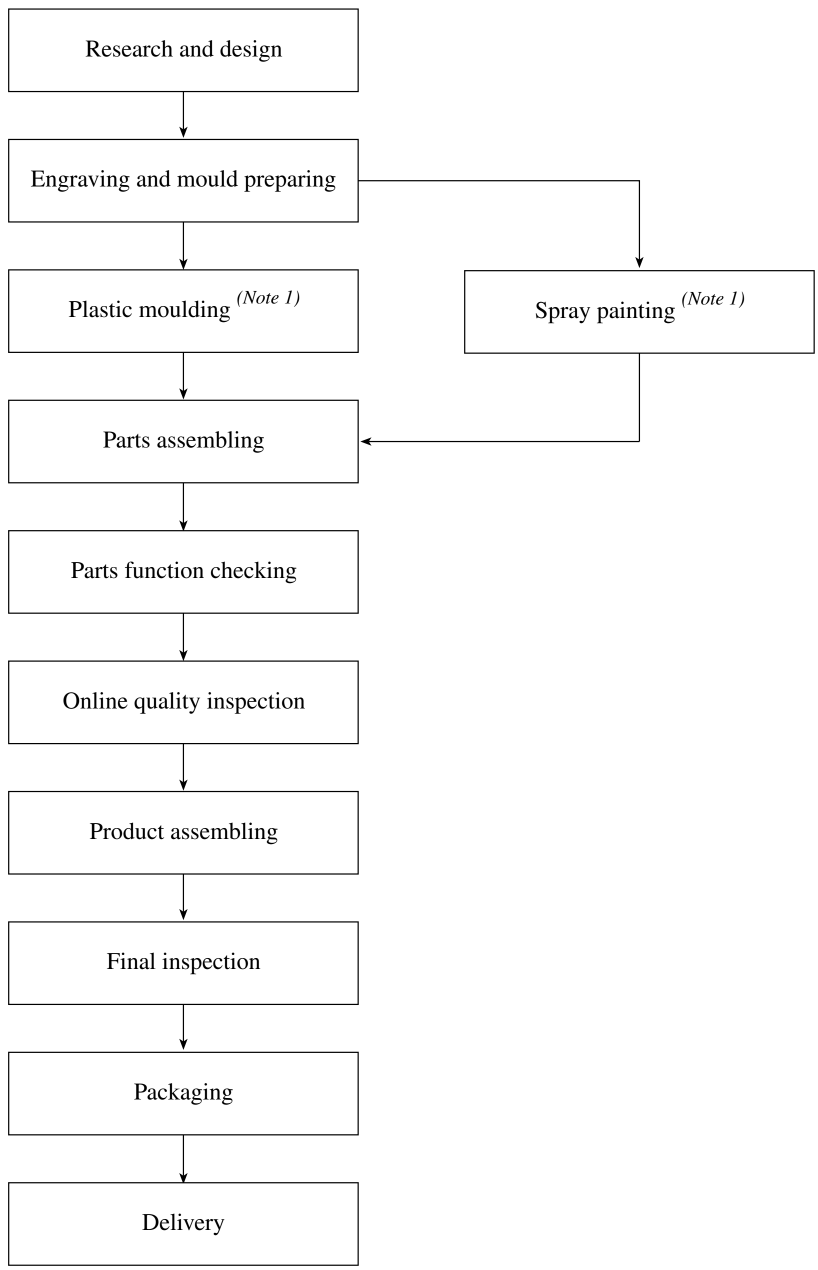
As at the Latest Practicable Date, taking into account the workers employed by 東莞市常平鎮外經實業公司 (Dongguan Changping Town Foreign Economic Industrial Company) pursuant to the DG Processing Agreement, there were around 2,405 staff working for the operation department of the Group. Currently, there are a total of 17 production lines for finished goods assembly and the production lines/facilities at the DG Kenford Factory which are capable of shifting flexibly between production of different lines of products with little or no modifications. The principal production facilities of the Group are injection moulding machines, EDM machines, milling machines, grinding machines, lathe, spraying chambers and ovens, pad printing machines, hot stamping machines, production lines with oven, heater winding machines, bristle insertion machines, wire forming machines, wire stripping machines, lead cutting machines, spot welding machines, hot plate welding machines, crimping machines and ultrasonic welding machines. The majority of the plant and machinery now situated in DG Kenford Factory are owned by the Group. Safeguarding policies have been set up and maintained by the Group. There are security guards and gates at the entrance, a 24-hour surveillance system, security scanners for entrance and exit, periodic count of assets, in and out register and insurance coverage.

DG KARIO

During the Track Record Period, the production plant of DG KARIO was also situated in Dongguan, Guangdong Province, the PRC comprising a single-storey industrial building. The property is leased by DG KARIO from an Independent Third Party for production use under a lease agreement for a term of three years from 1st October, 2002 to 30th September, 2005 at a rent of RMB10,000 per month. The gross floor area of the industrial building occupied by DG KARIO is approximately 900 sq.m. The production facilities of DG KARIO comprise mainly injection moulding machines, bristle insertion machines and high frequency welding machines. Currently, the KARIO Group has a total of 1 production line for finished goods assembly.

Production process

The major procedures involved in the manufacture of electrical appliances are illustrated in the following diagram:



Note 1: These procedures represent subcontracting procedures which are not primary but secondary and non-technical.

The major production procedures of the Group involve research and design, engraving and preparation, plastic moulding, spray painting, parts assembling, parts function checking, online quality inspection, product assembly, final inspection, packaging and delivery. The production procedures of the Group are labour intensive in general and require well-defined management control in accordance with the requirements as specified by the ISO 9001 certification accredited by SGS United Kingdom Ltd, an United Kingdom accredited certification body.

Production planning

The output of the Group is generally carried out on a sales-driven basis. In order to minimise the accumulation of any unnecessary inventory of finished products and tie up of working capital, it has been the Group's policy to proceed with the production process only after orders have been placed by ODM and OEM customers. From time to time, the operation department of the Group shall conduct a review of recent production performance and thereafter, the Group shall prepare and compile production plans for the future based on (i) the estimated demand with reference to the number and size of secured long-term and estimated/indicative short-term customers' orders, and (ii) the estimated production capacity of the Group from time to time.

Production capacity and utilisation

DG Kenford Factory

The production capacity and utilisation of the Group by product for each of the three years ended 31st March, 2004 and the nine months ended 31st December, 2004 are set out below:

	For the year ended 31st March,									For the nine months ended		
	2002			2003			2004			31st December, 2004		
	Annual capacity	Actual production	Utilisation	Annual capacity	Actual production	Utilisation	Annual capacity	Actual production	Utilisation	Capacity	Actual production	Utilisation
	(pieces)	*(pieces)*	%	*(pieces)*	*(pieces)*	%	*(pieces)*	*(pieces)*	%	*(pieces)*	*(pieces)*	%
Electrical hair care products	4,635,387	4,295,654	93	4,631,086	4,031,135	87	5,666,653	4,678,658	83	4,987,723	4,156,332	83
Foot bath	356,820	260,100	73	122,400	108,544	89	96,186	82,168	85	87,525	67,500	77
Other electrical health care products and small household electrical appliances	1,176,898	927,533	79	1,478,433	1,324,344	90	1,049,544	879,874	84	434,040	410,721	95

Note: the production capacity and utilisation of the Group referred to that of the DG Kenford Factory.

There was no material fluctuation in the production capacity and utilisation for the years ended 31st March, 2002, 2003 and 2004 and the nine months ended 31st December, 2004 since there were no material production expansions throughout the years. The continuous shifting of resources to electrical hair care products production was due to the increasing demand for them in the market.

The Group had an aggregate production capacity for the year ended 31st March, 2005 of 6,018,318 electrical hair care products, 92,352 foot bath and 651,844 other electrical health care products and small household electrical appliances and the Directors estimate that the production capacity for the year ending 31st March, 2006 will remain at a similar level. The annual production capacity is determined on assumptions including, amongst other things, (i) that the production plants of the Group could maintain its full operation for approximately 10 hours each day for 50 weeks per annum; and (ii) that the operating efficiency of all the production machinery of the Group could be maintained at not less than 90%.

DG KARIO

The production capacity and utilisation of the KARIO Group by product for each of the two years ended 31st March, 2004 and the nine month ended 31st December, 2004 are set out below:

	For the year ended 31st March,						For the nine months ended		
	2003			2004			31st December, 2004		
	Annual capacity	Actual production	Utilisation	Annual capacity	Actual production	Utilisation	Capacity	Actual production	Utilisation
	(pieces)	*(pieces)*	%	*(pieces)*	*(pieces)*	%	*(pieces)*	*(pieces)*	%
Electrical hair dryers and air brushes	37,378	4,620	12	7,785	3,700	48	18,843	18,520	98
Other electrical health care products and small household electrical appliances	72,054	5,600	8	221,385	177,444	80	258,347	242,254	94

Since the financial year ended 31st March, 2003 was the first year of production running for the KARIO Group, the level of utilisation was low.

SUB-CONTRACTING

During the Track Record Period, the Group sub-contracted part of its production processes to not more than 15 manufacturers (not more than 15 active ones as at Latest Practicable Date) who are Independent Third Parties. Such production processes included the plastic moulding and spray painting processes and the relevant raw materials are required to be in accordance with the specifications of the Group. These contractors were paid on a job order basis and were engaged in the absence of any long-term sub-contracting contracts. As the Group imposes stringent quality requirements on its products, the Group works with its sub-contractors to monitor the quality of those sub-contracted products.

For each of the three years ended 31st March, 2004 and the nine months ended 31st December, 2004, the Group paid sub-contracting fees of approximately HK$17.6 million, HK$13.0 million, HK$6.7 million and HK$15.0 million respectively to various sub-contracting agents, representing approximately 7%, 6%, 3% and 5% respectively of the Group's total production cost for each of the periods. With a view to enhancing the Group's production flexibility and cost effectiveness, the Directors envisage that the sub-contracting arrangement may continue from time to time as the circumstances so require, especially during peak seasons.

PROCUREMENT

Raw materials and suppliers

The principal raw materials sourced by the Group in its production which constitute the basic core components of its products include plastics, motors, power cords, switches, heating elements and thermostats. The approximate percentage of the raw materials sourced by the Group during the Track Record Period is set out below:

	Year ended 31st March,			Nine months ended 31st December,
	2002	**2003**	**2004**	**2004**
	%	%	%	%
Plastics	18	19	15	17
Motors	16	16	14	8
Power cords	8	8	8	9
Switches	6	4	7	8
Heating elements	1	2	12	19
Thermostats	3	3	3	2
Others *(Note)*	48	48	41	37
Total	100	100	100	100

Note: Other raw materials mainly comprise metal, electronic and packing materials.

The Group sources plastics, motors, power cords, switches, heating elements and thermostats mainly from Hong Kong and Japan.

For each of the three years ended 31st March, 2004 and the nine months ended 31st December, 2004, purchases from the five largest suppliers of the Group accounted for approximately 33%, 35%, 35% and 40% respectively of the Group's total cost of purchases. During the Track Record Period, certain major raw materials experienced a general upward price trend. The prices of raw materials were, to a certain extent, volatile. Factors affecting the supply and prices of raw materials include fluctuation of oil price and commodity price (including metals and plastics) and the variation in global economy as a whole.

For each of the three years ended 31st March, 2004 and the nine months ended 31st December, 2004, the largest supplier of the Group accounted for approximately 14%, 14%, 11% and 15% of the Group's total cost of purchases respectively. None of the Directors, their associates or any Shareholder, who or which to the knowledge of the Directors owns more than 5% of the issued share capital of the Company immediately upon completion of the Share Offer and the Capitalisation Issue, had any interest in any of the Group's five largest suppliers during the Track Record Period.

The Group has established business relationships with its five largest suppliers ranging from two to more than five years. The Directors consider that the Group has maintained good business relationship with its suppliers. As at the Latest Practicable Date, the Group did not enter into any long-term procurement contract with its suppliers. To the knowledge of the Directors, other than the existing suppliers of the Group, there are alternative sources of supply available for the raw materials which the Group requires.

The Group's purchases of raw materials from Hong Kong suppliers are settled in HK dollars, whereas the Group's purchases of imported raw materials from overseas suppliers are mostly settled in US dollars and Japanese Yen. The Group's purchases of raw materials from Hong Kong suppliers are mostly settled on an open account basis with credit terms of 14 to 90 days for the year ended 31st March, 2002 and 14 to 120 days for the two years ended 31st March, 2004 and the nine months ended 31st December, 2004 or a cash-on-delivery basis, whereas the Group's purchases of imported raw materials from overseas suppliers are mostly settled in letter of credit payable at sight. For each of the three years ended 31st March, 2004 and the nine months ended 31st December, 2004, the creditors' turnover days (being the outstanding balance of accounts and bills payable at year end or period end as divided by the average daily sales recorded in the relevant year or period) of the Group was approximately 57 days, 45 days, 46 days, and 51 days respectively. The material department and the operations department of the Group also periodically conduct assessments of suppliers including the quality of the materials they supply and the degree of their co-operation with the Group.

The Directors attribute the decrease of the creditors' turnover days from 57 days for the year ended 31st March, 2002 to 45 days for the year ended 31st March, 2003 to a substantial amount of 37% of accounts payable remained outstanding for over 121 days as at 31st March, 2002. The Directors attribute the increase of the creditors' turnover days from 46 days for the year ended 31st March, 2004 to 51 days for the nine months ended 31st December, 2004 to the fact that purchasing activities had been increased close to period end in order to build up inventories to cater for the increase in customers' demand. As the Group intended to effectively utilize the credit terms provided by suppliers, a greater balance remained to be unpaid as at period end, there was an increase in creditors' turnover days for the nine months ended 31st December, 2004.

Consumption of electricity

The Group's manufacturing plants operate almost throughout the year and the Group consumes substantial amounts of electricity in the course of its production process. However, given the significant demand for electricity in the PRC recently, the local electricity consumption may not be reliable and stable for consumption at all times. Dongguan, as a part of the Guangdong Province, the PRC, is also subject to the limitation in the consumption of electricity. Although the Group does not have any pre-emptive right in the consumption of electricity in Dongguan, the Group has its own diesel generators for contingency purposes and hence the Group is able to generate power supply for maintaining its daily operation. As confirmed by the Directors, no material business interruption of the Group was caused by unreliable electricity supply during the Track Record Period.

Inventory control

In order to ensure a stable supply of raw materials which can meet the ongoing requirements of sales and distribution, the quantity of each procurement order for raw materials is determined by the Group with reference to (i) the customers' indicative orders prevailing from time to time; (ii) the inventory levels prevailing from time to time; and (iii) the price trend and fluctuation of raw materials as predicted by the Group.

In line with the growth of the Group's production capacity and sales turnover during the Track Record Period, the Group experienced a corresponding increase in inventory balance during the Track Record Period. For each of the three years ended 31st March, 2004 and the nine months ended 31st December, 2004, the average inventory turnover (being the outstanding inventory balance at year end or period end as divided by the average daily sales recorded in the relevant year or period) of the Group was approximately 46 days, 53 days, 62 days and 43 days respectively, whereas the inventory balance represented approximately 18%, 18%, 25% and 18% of the total assets of the Group respectively.

The inventory turnover increased from 46 days for the year ended 31st March, 2002 to 53 days for the year ended 31st March, 2003. The Directors consider that the inventory turnover had been maintained at a level within the production lead time, i.e. from 45 to 60 days. The Directors attribute the increase of the average inventory turnover from 53 days for the year ended 31st March, 2003 to 62 days for the year ended 31st March, 2004 to the increase in closing stock as a percentage of turnover of the Group since the year ended 31st March, 2003. The inventory level kept at 31st March, 2004 was higher than that at 31st March, 2003 in order to cope with the coming increase in turnover.

As at the Latest Practicable Date, there was a total of not less than 110 staff working for the material department of the Group. In order to reduce the occurrence of obsolete inventories (including raw materials, work-in-progress and finished goods), the Group implements proper storage procedures with warehouse installations of forklift shelf designed to minimise damage and facilitate loading and unloading of the inventories. The Group also implements stock control procedures including up-to-date recording of all incoming and outgoing items into and out of warehouse and production lines. During the Track Record Period, the Group did not have any material obsolete inventory written off.

Whilst the inventories are stated at the lower of cost and net realisable value, provisions shall be made according to regular assessment of the aging status, subsequent usage, and saleable and physical condition of the inventories.

For the three years ended 31st March, 2004 and the nine months ended 31st December, 2004, a specific provision of HK$nil, HK$2.5 million, HK$2.7 million and HK$2.7 million were made respectively on the closing inventories of the Group.

QUALITY CONTROL AND ASSURANCE

The Directors consider that stringent quality control is a vital process which serves to reduce product returns and build up customers' confidence in the Group's products. With an aim to endeavoring that products reaching its customers or the end users are free from defects, the Group's operation department imposes stringent and repetitive quality checks and controls along the whole production line of the Group's manufacturing processes at DG Kenford Factory.

In October, 2001, the quality management system of the DG Kenford Factory was accredited with the ISO9001 certificate.

Before the commencement of production at DG Kenford Factory, incoming raw materials are inspected by in-house technicians to ensure that quality and specifications are in compliance with the requirement of the customers including safety standard of BS, CE, GS and UL. Every product has to be subject to function checking and quality inspection in the course of the production process. The checks and controls include incoming checks, online checks, random checks and technical checks, which are strictly carried out by the operation department of the Group. Inspections and checking on finished products are also performed prior to delivery. Some customers may merely rely on the Group's in-house quality control teams to ensure quality, whereas some customers may assign their own inspection personnel to carry out spot examinations on the Group's production processes and to randomly select samples of finished products.

RESEARCH AND DEVELOPMENT

With the assistance of computer-aided design technology and other equipment in the Group's laboratories, the engineering and design department of the Group has been conducting in-house design and research for the purposes of developing new product lines for the Group. From time to time, the engineering and design department of the Group innovates new product design and features around the core parameters of creativity, reliability, safety and commercial viability.

As at the Latest Practicable Date, there were a total of around 43 staff working for the engineering and design department of the Group.

INTELLECTUAL PROPERTY

The Group has 99 registrations of patents and designs and 5 registered trademarks in Hong Kong, the PRC and/or overseas, details of which are set out in the section headed "Intellectual property" in Appendix VIII to this prospectus. The Group has also made applications for registration of other trademarks, patents and designs.

As the Group has manufactured products on an ODM basis and will, in addition, manufacture on an OBM basis through the KARIO Group after the Track Record Period, the Directors confirm that the trademarks, designs and patents registered or applied for registration are fundamentally important to the Group's business and profitability. In order to safeguard the Group's future return as a result of its efforts spent on product innovation and development, the Directors endeavour to apply for or register relevant intellectual property rights of the Group's trademarks, technological know-how and product designs as and when appropriate.

INSURANCE

The Directors have exercised prudent risk management control. In this regard, Kenford has been maintaining a number of insurance plans for the purposes of covering against different aspects of risks.

- **Product liability insurance**

  Kenford has been maintaining product liability insurance for most kinds of its products against possible claims (relating to personal injury or damage to property arising from the product manufactured by it).

- **Property all risk insurance**

  Kenford has been maintaining insurance policy which covers its assets such as plant and machinery, raw materials and finished goods against accidental, physical loss, destruction or damage of property.

- **Public liability insurance**

  Kenford has also been maintaining third party insurance against possible third party personal injury and property damage claims relating to its factory premises and office located in the PRC and Hong Kong.

- **Inland transit insurance**

  Kenford has also been maintaining inland transit insurance against loss arising during the course of the transportation or delivery of raw materials and finished products by truck between Hong Kong and Guangdong, the PRC.

- **Credit insurance**

  Kenford has implemented proper risk management which includes the purchase of credit insurance against risk arising from customers' non-payment of 90% of the invoiced values of trade receivables outstanding from its certain key customers from time to time subject to the sum insured on an open account basis during the insured period.

The Directors believe that the Group has taken steps to cover its operational risks in a deem and proper way by means of maintaining various insurance policies, which are either purchased on a mandatory or a voluntary basis.

ENVIRONMENTAL PROTECTION

Being a corporation with social responsibilities and ethical emphasis, the Group endeavours to take appropriate steps to comply with the environmental protection regulations in the PRC to which the Group is subject to the extent required by the relevant laws and regulations as enacted from time to time.

Pursuant to the provision of Ordinance of Management on the Environmental Protection of Building Project (建設項目環境保護管理條例) issued by the State Council, the State shall, base on the degree that the projects affect the environment, administer the environmental protection of building project by classification according to the following provisions:

a. where the building project will possibly cause any material effect to environment, the Environmental Effect Report (環境影響報告書) shall be made to provide a complete and particular evaluation concerning the pollution incurred by the building project and the environmental effect;

b. where the building project will possibly cause any light effect to environment, the Environmental Effect Report Form (環境影響報告表) shall be made to analyze or specially evaluate the pollution incurred by the building project and the environmental effect;

c. where the environmental effect of the building project will be so light that no environmental evaluation is required to be done, the registration form of environmental effect (環境影響登記表) shall be filled.

The Environmental Effect Report (環境影響報告書), the Environmental Effect Report Form (環境影響報告表) or the registration form of environmental effect (環境影響登記表) shall be approved by the authorized environmental protection authorities.

The DG Processing Agreement has no provision on which party is responsible for compliance with PRC environmental law. According to the confirmation letter issued by the local environmental protection authority in November 2004, DG Kenford Factory has complied with the relevant PRC environmental protection laws and regulations.

NON-COMPETITION UNDERTAKING

As at the Latest Practicable Date, the Directors confirmed that there was no competition, directly or indirectly, between the Group and the businesses of the Controlling Shareholders. The Controlling Shareholders have executed a non-competition undertaking in favour of the Company whereby each of the Controlling Shareholders has undertaken to the Company to the effect that for as long as:

(a) he/it and/or his/its associates and/or entities or companies controlled by him/it or his/its associates is/are entitled to exercise or control the exercise of 30% or more of the voting power at general meeting of the Company or is/are able, as practical matter, to direct or influence the management of the Company or is otherwise a controlling shareholder within the meanings of the Listing Rules in force from time to time; and

(b) the securities of the Company are and remain listed on the Stock Exchange,

he/it will not, directly or indirectly, either for his/its own account or, as agent for any person in conjunction with or on behalf of or for any other person, and shall procure that his/its associates and entities or companies controlled by him/it or his/its associates (other than any member of the Group) will not, inter alia:–

(i) carry on, participate or be engaged, concerned or interested, directly or indirectly, either for his/its own account or in conjunction with or on behalf of or for any other person in or in any way assist in or provide support (whether financial, technical or otherwise) to any business which is or may be in competition with or similar to that of any member of the Group (including without limitation the business of the Group) in Hong Kong and the PRC and any other countries and territories where the Group carries on business from time to time ("Territory") unless and until none of the members of the Group is carrying on or engaged in such business;

(ii) at any time directly or indirectly induce or attempt to induce any director, manager or employee of the Group to terminate his/her employment with the Group, whether or not that person would commit a breach of that person's contract of employment;

(iii) at any time employ any person who has been a director, manager, employee of or consultant to the Group who is or may be likely to be in possession of any confidential information or trade secrets relating to the business of the Group;

(iv) directly or indirectly canvass, solicit or persuade or accept order from or do business with any person who has done business with the Group or is in the process of negotiating with the Group in relation to the business or otherwise endeavour to induce any person being a customer, supplier or a business partner of any member of the Group to cease to deal with the Group or reduce the amount of business which the person would normally do with the Group; and

(v) in the event that he/it and/or any of his/its respective associates or companies or entities controlled by any of them come across investment opportunity in respect of the business of the Group in the Territory, he/it shall, and shall procure any of his/its associates or companies or entities controlled by any of them to, refer such investment opportunity and upon request of the Company, provide information to the Company as soon as practicable so as to enable the Company to make a decision as to whether to invest provided that he/it shall not be obliged to do so if making such referral and/or disclosing information relating to such investment opportunity will result in he/it and/ or any of his/its associates or companies or entities controlled by any of them breaching his/its or their duties towards third parties for maintaining the confidentiality of information relating to such investment opportunity.

Notwithstanding the above, none of the Controlling Shareholders shall be prevented from holding of the securities of the Company listed on the Stock Exchange by any of them or any of their respective associates or companies or entities controlled by any of them.

The above undertaking will cease to have effect upon the date on which all the securities of the Company cease to be listed on the Stock Exchange.

KARIO AND DG KARIO

With a view to expanding its business network and enlarging its customer base to PRC domestic customers, Kenford and Great Incentive established KARIO in Hong Kong on 21st December, 2001 with 50% interest beneficially owned by Kenford and 50% interest beneficially owned by Great Incentive. KARIO is a trading and investment holding company, the principal asset of which is its entire equity interest in DG KARIO, a wholly foreign-owned enterprise established in the PRC on 21st March, 2002, which has been principally engaging in design and manufacture of electrical hair care products and other electrical appliances such as coffee makers and juicers for sale in the PRC market on ODM and OBM basis. Pursuant to the business licence of DG KARIO, DG KARIO is also licensed to export products to overseas markets. DG KARIO commenced its production in July 2002. Currently, all products manufactured by DG KARIO including electrical hair care products and other electrical appliances such as coffee makers and juicers are for sale in the PRC domestic market. The initial registered capital of DG KARIO of US$1,000,000 was not fully paid in accordance with the initial articles of DG KARIO. On 15th December, 2003, the relevant governmental authority approved a reduction of the registered capital of DG KARIO to US$513,000. The reduced registered capital of DG KARIO of US$513,000 has been fully paid up.

On 31st March, 2003, Kenford transferred one share, representing 50% of the issued share capital, in KARIO to Mr. Lam WH, the brother of Mr. Lam WM. On the same day, KARIO issued and allotted 4,999, 2,499 and 2,500 new shares in KARIO to Great Incentive, Mr. Lam WH and Mr. Chan respectively. Thereafter, KARIO became beneficially owned as to 50% by Great Incentive, 25% by Mr. Lam WH and 25% by Mr. Chan. Subsequent to 31st December, 2004, and on 23rd March, 2005, Sky Ocean acquired from Great Incentive, Mr. Lam WH and Mr. Chan the entire issued share capital of KARIO as to 5,000 shares from Great Incentive, 2,500 shares from Mr. Lam WH and 2,500 shares from Mr. Chan and since then, KARIO became a wholly-owned subsidiary of the Group.

With a view to leveraging on the product design capability of the Group's engineering and design team, and for the purpose of enhancing the long-term growth potential of the Group, it is the Directors' anticipation to develop and pursue its OBM business through the acquisition of the KARIO Group, pursuant to which the Group's products are manufactured under its own brand name "KARIO". During the Track Record Period, no sales of the Group (excluding KARIO and DG KARIO) were generated from the sale of products manufactured on an OBM basis.

For each of the years ended 31st March, 2003 and 2004 and for the nine months ended 31st December, 2004, approximately 3.22%, 0.11% and 1.06% of the sales of DG KARIO were generated from the sale of products manufactured on an OBM basis. It is the Group's long term strategy that DG KARIO will mainly focus on retail distribution for its OBM products via domestic agents in other geographical areas outside Guangdong Province in the PRC. The Group will also put more effort in repackaging its current products to meet the needs of different market segments in pursuit of market penetration and with a view to enhancing the popularity of the brand name "KARIO".

The Group is of the view that domestic sales in the PRC serve to broaden the income base of the Group. DG KARIO mainly carries out its sales and distribution activities through its own sales and marketing team for its ODM products.

The industrial plant of DG KARIO comprises a single-storey industrial building situated in Dongguan, Guangdong Province, the PRC. The property is leased by DG KARIO from an Independent Third Party for production use under a lease agreement for a term of three years from 1st October, 2002 to 30th September, 2005 at a rent of RMB10,000 per month. The gross floor area of the industrial building occupied by DG KARIO is approximately 900 sq.m.. The production facilities of DG KARIO comprise mainly injection moulding machines, bristle insertion machines and high frequency welding machines.

As at the Latest Practicable Date, KARIO Group had a total of around 47 staff.

For each of the two years ended 31st March, 2004 and the nine months ended 31st December, 2004, the total outputs produced by DG KARIO were around 10,000 pieces, 181,000 pieces and 261,000 pieces respectively, while the total turnover of DG KARIO were around HK$5,562,000, HK$13,759,000 and HK$14,800,000 respectively. The total turnover of DG KARIO accounted for approximately 100%, 96% and 82% of the total turnover of the KARIO Group, respectively. The remaining 4% and 18% of the total turnover of the KARIO Group were generated from sales from KARIO to the Group.

For each of the two years ended 31st March, 2004 and the nine months ended 31st December, 2004, sales to the five largest customers of the KARIO Group accounted for approximately 100%, 100%, and 100% of the KARIO Group's total turnover respectively. For each of the two years ended 31st March, 2004 and the nine months ended 31st December, 2004, sales to the largest customer of the KARIO Group accounted for approximately 97%, 95% and 80% of the KARIO Group's total turnover respectively. None of the Directors, their associates or any Shareholder, who or which to the knowledge of the Directors owns more than 5% of the issued share capital of the Company immediately upon completion of the Share Offer and the Capitalisation Issue, had any interest in any of the KARIO Group's five largest customers during the Track Record Period, except for that of Kenford (the second largest customers of KARIO Group for the year ended 31st March, 2004 and the nine months ended 31st December, 2004). Both Mr. Lam WM and Mr. Tam are common directors of both Kenford and KARIO. Each of them held:

(i) 50% interest directly in Kenford and 25% interest indirectly in KARIO before Reorganization on 23rd March, 2005; and

(ii) 35.7% interest indirectly in Kenford and KARIO after the Reorganisation and immediately upon completion of the Share Offer and the Capitalisation Issue.

Mr. Chan became a director of Kenford on 23rd June, 2003. He had zero interest in Kenford and 25% interest indirectly in KARIO before Reorganisation on 23rd March, 2005. After Reorganization and immediately upon completion of the Share Offer and the Capitalisation Issue, Mr. Chan held 3.6% interest indirectly in Kenford and KARIO.

During the Track Record Period, KARIO Group had various suppliers. For each of the two years ended 31st March, 2004 and nine months ended 31st December, 2004, purchases from the five largest suppliers of the KARIO Group accounted for approximately 72%, 48% and 48% of the total costs of purchases of the KARIO Group, whereas purchases from the largest supplier of the KARIO Group accounted for approximately 39%, 17% and 16% of the total costs of purchases of the KARIO Group. None of the Directors, their associates or any Shareholder, who or which to the knowledge of the Directors owns more than 5% of the issued share capital of the Company immediately upon completion of the Share Offer and the Capitalisation Issue, had any interest in any of the KARIO Group's five largest suppliers during the Track Record Period.

As regards the product delivery to its PRC customers, KARIO's finished products are either (i) collected on an ex-factory basis by its customers from DG KARIO; or (ii) delivered to the relevant points of sale. The Directors estimate that the lead time for placing purchase order by PRC domestic customers to the delivery of the first batch of finished products by DG KARIO is around 45 days to 60 days in general (subject to the size and the type of the order and the location of the customers and the availability of raw materials). For its ODM products, sales settlement is carried out in tranches. For its OBM products, sales settlement is carried out by way of open account.

In accordance with the relevant PRC laws and regulations, DG KARIO has maintained relevant insurance schemes (including retirement benefits, medical benefits, unemployment benefits and injury benefits) for its employees in the PRC.

No provision for Hong Kong profit tax was required for KARIO and DG KARIO for the years of assessment 2001/02 and 2002/03. The applicable tax rates for KARIO for the year of 2003/04 is 17.5%, if any. DG KARIO had been enjoying an enterprise income tax exemption since 2003, the first year of profit making. As from the financial year commencing 1st January, 2005, DG KARIO will be entitled to 50% income tax relief until 31st December, 2007. Thereafter, DG KARIO will be subject to a foreign enterprise income tax of currently 24% at national level (plus 3% at local level which is waived provided that DG KARIO will not cease its operation before the expiry of 10 years from 21st March, 2002). On the other hand, sales of DG KARIO in the PRC domestic market is subject to a value-added tax of currently 17%.

FUTURE PLANS

The vision of the Group is to become a leading electrical appliances manufacturer in the PRC in terms of production scale and product quality. It is also the mission of the Group to attain total customer satisfaction and maintain a win-win relationship with customers on a long-term basis. In line with the Group's objectives, the Group strives to offer a wide array of innovative or tailored products with consistently high quality to its existing and new customers.

Since 31st December, 2004, being the date to which the latest audited accounts of the Group were made up, the Group continues to focus on offering high-end or newly developed electrical hair care products, which were once more commonly used in salons, for the mass household markets (particularly in Europe). To this end, the Group continues to launch new kinds of hair styling apparatus. Based on the sales orders received so far, the Directors remain positive on the financial and trading prospects of the Group in the near term, barring any unforeseen adverse circumstances.

To achieve its objectives, the Group has formulated the following business strategies:

- **Expansion of production capacity and capability**

  In line with the Group's business expansion plan, the Group plans to upgrade and expand its existing production facilities for further growth and development. In particular, the Group plans to purchase and install new equipment in (i) the DG Kenford Factory and/or (ii) the factory of DG KARIO which may be relocated to a piece of land of about 6,390 sq.m. situated adjacent to it or at some other location to be determined by the Group so as to increase its overall production capacity.

  With a view to achieving greater economies of scale and thereby enhancing the competitiveness of its products in the marketplace, the Group will also devise effective management control over or re-engineer its production processes in order to optimise its production efficiency and to improve the quality of its existing products, after commissioning the new production equipment.

- **Penetration and further expansion into new and existing geographical markets**

  Leveraging on the existing multinational customer base of the Group, the Group plans to establish business relationship with more overseas customers with a view to broadening the Group's customer base and the market coverage of the Group's products.

For the purpose of penetration into the Group's new or developing markets such as the United States and the PRC, and for the purpose of further expansion into the Group's existing European markets, the Group intends to strengthen its sales force by way of recruiting new sales and marketing staff to solicit potential customers for the Group.

- **Marketing and promotion of the Group's own branded products**

With a view to leveraging on the product development capability of the Group's engineering, research and development team, and for the purpose of enhancing the long-term growth potential of the Group, it is the Directors' intention to actively develop and pursue its OBM business, pursuant to which the Group's products are manufactured and sold under its own brand name "KARIO".

After the Track Record Period, the Group has acquired the KARIO Group and tended to manufacture and sell more of its products on an OBM basis through the KARIO Group. Subject to market conditions, the Group plans to launch various marketing and promotional activities as applicable to its own OBM products.

- **Strengthening the engineering, research and development capability**

The Directors envisage that the possession of strong product development capability is the key to enabling the Group to continue with the launching of a new and innovative array of products.

In this connection, the Group plans to reinforce its product development capability by way of recruiting more engineers. With a stronger engineering, research and development team, the Group will be better positioned to expand the range of product models and lines available for its ODM and OBM customers.

- **Building up a pool of intellectual property rights for its products**

The Directors consider that the success of the Group relies, to a certain extent, on whether it is able to successfully register and enforce protection for the intellectual property rights relating to its product designs.

In line with the expansion of both the product range and the target markets of the Group, the Directors plan to commit more resources to building up a pool of intellectual property rights for its new products and in its new markets. The Group intends to patent or register more of its product designs, trademarks, and production technological know-how in a number of target markets including Europe, the United States and the PRC.

- **Growth through strategic alliances, joint ventures, acquisitions and/or cooperative arrangements**

  In achieving the vision of the Group to become a leading electrical appliances manufacturer in the PRC, the Directors may from time to time pursue opportunities to develop the Group's business through strategic alliances, joint ventures, acquisitions and/or co-operative arrangements with overseas or domestic electrical industry players as appropriate.

  The Directors believe that any suitable measures between the Group and the industry players (such as electrical manufacturer counterparts or brand owners/licensors) as aforesaid could combine the strength, experience and contacts of mutual parties, thereby bringing in synergistic benefits to the Group in the relevant target markets and enabling the Group to strengthen its position in the electrical appliances industry.

USE OF PROCEEDS

The Share Offer will provide the necessary funds to the Group for meeting its development needs. Based on the Offer Price of HK$0.55, the net proceeds from the Share Offer, after deduction of the underwriting fees and other related expenses payable by the Company in relation to the Share Offer, are estimated to be approximately HK$34 million. It is expected that the net proceeds of the Share Offer will be applied as follows:

- as to approximately HK$29 million for expansion of the production capacity and capability of the Group (out of which as to approximately HK$20 million will be used for construction of new plant, and as to approximately HK$9 million will be used for acquisition of new machineries);

- as to approximately HK$2 million for penetration and further expansion into new and existing geographical markets such as the United States and the PRC (including the marketing and promotion of the Group's own branded products);

- as to approximately HK$2 million for strengthening the engineering, research and development capability of the Group (including the building up of a pool of intellectual property rights for its products); and

- as to the balance of approximately HK$1 million for additional general working capital of the Group (such as purchase of raw materials and payment of expenses).

To the extent that the net proceeds of the Share Offer are not immediately required for the above purposes, it is the present intention of the Directors that such net proceeds will be placed in short-term interest-bearing deposits with licensed banks and authorised financial institutions in Hong Kong.

DIRECTORS

Executive Directors

Mr. Lam Wai Ming, aged 46, joined the Group in January 1989. Mr. Lam has over 20 years of experience in the trading and manufacturing of electrical appliances. Mr. Lam is currently an executive Director and is responsible for the supervision and management of the sales and marketing affairs of the Group.

Mr. Tam Chi Sang, aged 45, joined the Group in July 1991. Mr. Tam has over 20 years of experience in the trading of electrical appliances. Mr. Tam is currently an executive Director and is responsible for the supervision and management of the production, quality control, engineering and design affairs of the Group. Mr. Tam is also the marketing and promotion director of Hong Kong Electrical Appliances Manufacturers Association.

Mr. Chan Kwok Tung, Donny, *FCIS, FCS, ACIB, AHKIB*, aged 42, joined the Group in October 2001. Prior to joining the Company, Mr. Chan has extensive experience in the banking and finance industry. Mr. Chan was awarded a Master of Professional Accounting from The Hong Kong Polytechnic University in November 2000 and a MBA from The Henley Management College, UK in 1993. Mr. Chan is an associate member of both the Chartered Institute of Bankers (UK) and the Hong Kong Institute of Bankers. Mr. Chan is also a fellow member of both The Hong Kong Institute of Company Secretaries and The Institute of Chartered Secretaries and Administrators, United Kingdom. He was a council member of The Hong Kong Institute of Company Secretaries from August 2000 to July 2002. Mr. Chan is currently an executive Director and the company secretary of the Company and is responsible for the supervision and management of the daily operation and the financial affairs of the Group, with particular focus on corporate governance (including regulatory compliance) and financial risk control (including credit assessment).

Independent non-executive Directors

Mr. Chiu Fan Wa, *FCCA, FCPA (Practising), ACIS, ACS*, aged 40, was appointed as the independent non-executive Director on 23rd March, 2005. He is a founder and the managing director of Chiu, Choy & Chung C.P.A. Limited, a local audit firm and a partner of F. S. Li & Co, a local audit firm. He graduated from City University of Hong Kong and obtained a Bachelor of Arts (Honours) degree with major in accountancy in 1992 and was awarded a Master of Professional Accounting from The Hong Kong Polytechnic University in 2002. He is a Certified Public Accountant (Practising) in Hong Kong, a fellow of the Hong Kong Institute of Certified Public Accountants, a fellow of the Association of Chartered Certified Accountants, a member of The Society of Chinese Accountants & Auditors, an associate of The Hong Kong Institute of Company Secretaries and an associate of The Institute of Chartered Secretaries and Administrators, United Kingdom.

Mr. Li Chi Chung, aged 36, was appointed as the independent non-executive Director on 23rd March, 2005. He is currently a solicitor practising in Hong Kong. He obtained a bachelor degree in laws from The University of Sheffield in England in 1990. Mr. Li was admitted as a solicitor of the Supreme Court of Hong Kong in 1993 and his practice has been focused on commercial related matters. He is also an independent non-executive director of PINE Technology Holdings Limited, a company listed on the Growth Enterprise Market of the Stock Exchange and an independent non-executive director of Eagle Nice (International) Holdings Limited, a company listed on the Main Board of the Stock Exchange.

Mr. Li Tat Wah, aged 35, was appointed as the independent non-executive Director on 23rd March, 2005. He has extensive experience in information technology. Mr. Li holds a master degree of business administration from University of Surrey (U.K.). He is currently the project manager of a group company of a multinational communication equipment company listed on the New York Stock Exchange of the United States.

Directors' remuneration

Each of Mr. Lam WM, Mr. Tam and Mr. Chan, all being executive Directors, has entered into a director's service agreement on 29th April, 2005 with the Company for an initial term of three years commencing from the Listing Date and shall continue thereafter until terminated by either party by giving to the other not less than three calendar months' notice in writing terminating on or after the expiry of the initial term of three years. Each of the executive Directors is entitled to the respective basic annual salary set out below:

Name	**Salary (per annum)**
Mr. Lam WM	HK$2,340,000
Mr. Tam	HK$2,340,000
Mr. Chan	HK$1,250,000

In addition, each of the executive Directors is also entitled to a discretionary performance bonus of an amount to be determined by the Board. The basic annual salary of each of the executive Directors shall be reviewed by the Board at its sole discretion on 1st January of each calendar year provided that the executive Director shall abstain from voting and not be counted in the quorum in respect of the resolution proposed at any meeting of the Board regarding (i) any increase in the basic annual salary or (ii) payment of the discretionary performance bonus payable to him. The aggregate remuneration (comprising fees, salaries, allowance, discretionary bonuses and retirement benefits scheme contributions) and benefits in kind received by the executive Directors for each of the three years ended 31st March, 2002, 2003 and 2004 and the nine months ended 31st December, 2004 were approximately HK$3,184,000, HK$2,884,000, HK$3,490,000 and HK$2,877,000 respectively. Under the arrangements currently in force, the estimated aggregate remuneration and other benefits in kind receivable by the executive Directors for the year ended 31st March, 2005 will be approximately HK$3.9 million, without taking into account of any performance bonus based on the operating results of the Group. However, the consultancy fees for the provision of management services paid by the Group to V. Link Development Limited and Lightwin Resources Limited should not fall within the definition of "directors' remuneration" under section 161 of the Companies Ordinance and should only be regarded as directors' interest in accordance with the Companies Ordinance.

SENIOR MANAGEMENT

Mr. Kwong Pak Chuen, Patrick, aged 44, joined the Group in June 1999 and is the senior engineering manager of the Group. Mr. Kwong has over 20 years' experience in project engineering, product development and research and development for small household electrical appliances, such as hair care products, and kitchen ware products and other hand held drilling machines and hand toys. He graduated from The University of Warwick with a master degree of Science in Engineering Business Management.

Mr. Law Tak Wai, aged 45, joined the Group in May 1997 and is the operation manager of the Group. Mr. Law has over 20 years' experience in appliance engineering and manufacturing. He has obtained the Higher Diploma in Mechanical Engineering and Endorsement Certificate in Plastic Tooling Technology and Practice from The Hong Kong Polytechnic University.

Mr. Wong Siu Man, aged 43, joined the Group in September 2002 and is the senior materials manager of the Group. Mr. Wong has over 15 years' experience in purchasing and materials management. He has obtained a bachelor degree of Science in Engineering from The University of Hong Kong.

Mr. Lam Wai Hung, a brother of Mr. Lam WM, aged 34, joined the Group in February 1993 and is the administration manager of the Group. Mr. Lam has over 10 years' experience in factory administration and in handling regulatory compliance in the PRC.

Ms. Chan Tsz Ping, aged 30, joined the Group in July 2004 and is the chief accountant of the Group and the qualified accountant of the Company. Ms. Chan graduated from The Hong Kong University of Science and Technology with a bachelor degree of business administration in accounting and has over 6 years' relevant experience in accounting and auditing in international accounting firms and other auditing and consulting firms. She is an associate member of the Hong Kong Institute of Certified Public Accountants and a member of the Association of Chartered Certified Accountants.

AUDIT COMMITTEE

The Company established an audit committee on 29th April, 2005 in compliance with Rule 3.21 of the Listing Rules. The primary duties of the audit committee are to review and supervise the financial reporting process and internal control system of the Group and to review the Company's annual reports and interim reports.

The audit committee has three members comprising all the independent non-executive Directors, namely Mr. Chiu Fan Wa, Mr. Li Chi Chung and Mr. Li Tat Wah. Mr. Chiu Fan Wa is the chairman of the audit committee.

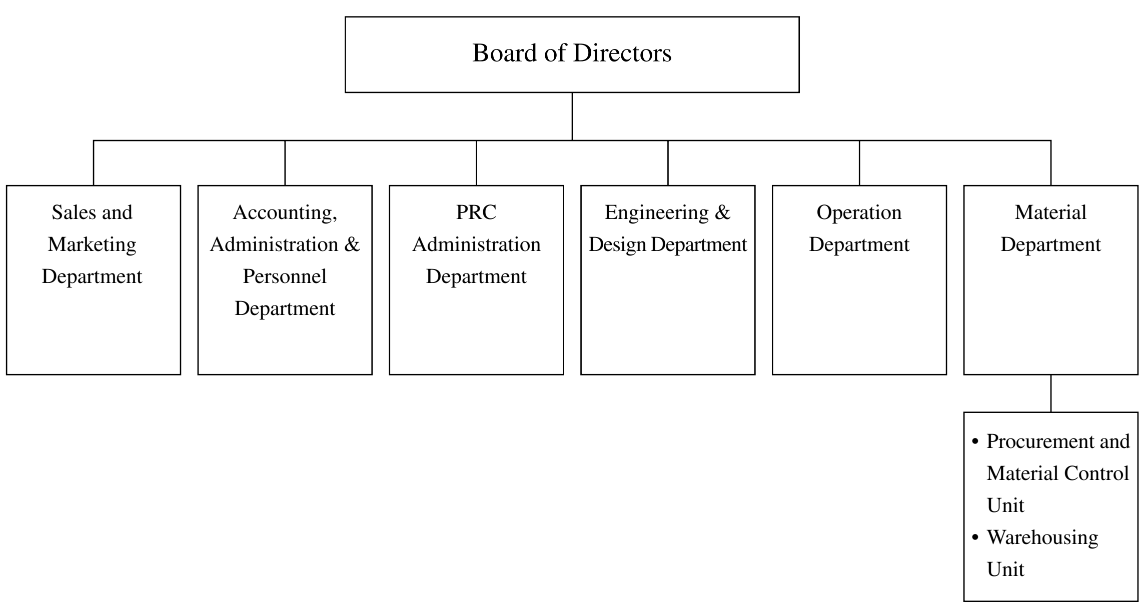
COMPANY SECRETARY

Mr. Chan Kwok Tung, Donny, aged 42, is the company secretary of the Company. Mr. Chan's particulars and experiences are set forth in the paragraph headed "Directors" above.

QUALIFIED ACCOUNTANT

Ms. Chan Tsz Ping, aged 30, is the qualified accountant of the Company. Ms. Chan's particulars and experiences are set forth in the paragraph headed "Senior management" above.

MANAGEMENT STRUCTURE



STAFF

Overview of staff numbers

As at the Latest Practicable Date, taking into account the workers employed by 東莞市常平鎮外經實業公司 (Donggguan Changping Town Foreign Economic Industrial Company) pursuant to the DG Processing Agreement, there were around 49 staff working for the Group in Hong Kong and 2,658 staff working for the Group in Mainland China. A breakdown of the workforce by activity is as follows:

Department	Hong Kong staff	PRC staff	Total
Sales and marketing	8	13	21
Accounting, administration and personnel	16	8	24
PRC administration	3	101	104
Engineering and design	10	33	43
Operation	5	2,400	2,405
Material	7	103	110
Total	49	2,658	2,707

Relationship with staff

The Group recognises the importance of training for the staff. Apart from on-the-job training, the Group also regularly provides internal and external training for the staff to enhance their technical knowledge.

During the Track Record Period, the Group did not experience any significant problems with the staff working for the Group or material disruption to its operations due to strike or labour disputes. The Group is satisfied with the working relationship with all staff.

The Group has been endeavouring to put more emphasis on the staff's welfare from time to time. The Directors consider human resources as intangible assets of the Group and that a sense of belonging is a kind of motivation to enhance staff morale which is crucial to the cohesiveness of the staff working directly and/or indirectly for the Group. For this reason, at the DG Kenford Factory:

(i) training courses have been organised for the continuous professional training of the staff;

(ii) there are various recreational facilities for the staff such as karaoke, magazines and newspapers;

(iii) various recreational activities have been organised for the staff such as sports/ball games;

(iv) there are opinion boxes for collecting staff's feedbacks on the working environment which shall be reviewed periodically by the senior management;

(v) its own security guards have been engaged and its own fire service units have been set up to ensure the safety of the staff; and

(vi) fire drill is conducted periodually to safeguard assets of it and the staff.

In addition to the above, the Directors highly recommend the importance of anti-corruption. There are in place anti-corruption guidelines to the staff and suppliers. Anti-corruption guidelines are displayed prominently at entrances and discussion areas within the offices/factories at DG Kenford Factory. Staff working for the Group are highly encouraged to report corruption cases.

Staff benefits

Save as disclosed above, the Group provides various benefits, including but not limited to, retirement benefits, staff messing expense and staff quarters.

Total staff benefits paid by the Group for each of the three years ended 31st March, 2004 and the nine months ended 31st December, 2004 were approximately HK$5.4 million, HK$3.3 million, HK$3.5 million and HK$2.6 million, respectively, out of which approximately HK$4.9 million, HK$2.8 million, HK$2.7 million and HK$2.2 million, respectively were paid as reimbursement for DG Kenford Factory and Shenzhen Processing Factory (inclusive of staff/retirement benefits, some workers messing expenses and labour registration fees).

Retirement benefits

The Group operates a Mandatory Provident Fund Scheme (the "MPF Scheme") for those employees eligible to participate in the MPF Scheme. Contributions are made based on a percentage of the participating employees' basic salary and payable in accordance with the rules of the MPF Scheme.

As at the Latest Practicable Date, taking into account the workers employed by 東莞市常平鎮外經實業公司 (Dongguan Changping Town Foreign Economic Industrial Company) pursuant to the DG Processing Agreement, there was a workforce of around 2,707 staff working for the Group. Under the laws and regulations of PRC and the DG Processing Agreement, there is no direct legal relationship between Kenford and the workers employed by Dongguan Changping Town Foreign Economic Industrial Company.

In compliance with the relevant rules and regulations of the PRC, DG Kenford Factory and Shenzhen Processing Factory have purchased social insurance in the PRC, and has taken out old-age insurance, unemployment insurance and basic medical insurance (including retirement benefits, medical benefits, unemployment benefits and injury benefits) for the benefit of eligible employees working for the Group in the PRC.

For each of the year/period in the Track Record Period ended 31st March, 2002, 31st March, 2003, 31st March, 2004 and 31st December, 2004, the Group has incurred for a total amount of staff/retirement benefits of approximately HK$483,000, HK$759,000, HK$776,000 and HK$659,000, respectively, of which approximately HK$nil, HK$342,000, HK$389,000 and HK$332,000, respectively were paid in connection with the PRC processing arrangements. The nature of staff/ retirement benefits as reimbursement for DG Kenford Factory and Shenzhen Processing Factory during the Track Record Period was some PRC statutory expenses paid by the DG Kenford Factory and the Shenzhen Processing Factory, such as medical insurance, unemployment insurance and retirement insurance. The retirement benefit scheme costs charged to the combined profit and loss account represent gross contributions paid and payable by the Group to the above schemes. The assets of the scheme in Hong Kong are held separately from those of the Group in independently administered funds.

The Group has been reimbursing the said staff benefits of the DG Kenford Factory and the Shenzhen Processing Factory throughout the Track Record Period with the aim to maintain a good relationship with the factory. The Directors confirm that the payment of such expenses by the Group (as the foreign party to the relevant processing agreement) is in line with the market practice of processing factories in the PRC. Other than the disclosed sum of staff benefits (as required statutorily or otherwise), there were no other material expenditures paid by the Group in respect of the workers employed by the relevant PRC party to the DG Processing Agreement and the Shenzhen Processing Agreement. The Directors confirm that sufficient provision has been made for the pension fund in all jurisdictions in which the Group operates.

Share Option Schemes

The Company has conditionally adopted the Pre-IPO Share Option Scheme and the Share Option Scheme whereby such selected class of participants (as more particularly described in Appendix VIII to this prospectus) have been or may be granted options to subscribe for Shares at the discretion of the Board. The principal terms of the Pre-IPO Share Option Scheme and the Share Option Scheme are summarised under the paragraphs headed "Pre-IPO Share Option Scheme" and "Share Option Scheme" respectively in Appendix VIII to this prospectus.

CONTROLLING SHAREHOLDERS

So far as the Directors are aware, immediately following completion of the Share Offer and the Capitalisation Issue (but taking no account of any Shares which may fall to be issued upon the exercise of any options which have been granted under the Pre-IPO Share Option Scheme or may be granted under the Share Option Scheme or the subscription rights attaching to the Warrants), the following persons are the Controlling Shareholders of the Company:

Name	Number of Shares directly or indirectly held immediately following completion of the Share Offer and the Capitalisation Issue	Approximate percentage of interest in the Company immediately following completion of the Share Offer and the Capitalisation Issue
Mr. Lam WM	244,800,000 *(Note 1)*	61.2%
Mr. Tam	244,800,000 *(Note 2)*	61.2%
Apex Prima	204,000,000 *(Note 3)*	51%
Potentasia	204,000,000 *(Note 4)*	51%
Beaute	204,000,000	51%
Achieve Best	40,800,000 *(Note 5)*	10.2%
Realchamp	40,800,000 *(Note 6)*	10.2%

Notes:

1. Mr. Lam WM is taken to be interested in an aggregate of 244,800,000 Shares held by Achieve Best and Beaute respectively as follows:

   (a) 40,800,000 Shares are held by Achieve Best which is wholly-owned by Mr. Lam WM and Mr. Lam WM is the sole director of Achieve Best. Mr. Lam WM is therefore taken to be interested in 40,800,000 Shares that Achieve Best is interested;

   (b) 204,000,000 Shares are held by Beaute which is owned as to 50% by Apex Prima and 50% by Potentasia. Apex Prima is wholly-owned by Mr. Lam WM and Potentasia is wholly-owned by Mr. Tam. Mr. Lam WM is a director of Beaute and the sole director of Apex Prima. Mr. Lam WM is therefore taken to be interested in 204,000,000 Shares that Beaute is interested.

2. Mr. Tam is taken to be interested in an aggregate of 244,800,000 Shares held by Realchamp and Beaute respectively as follows:

   (a) 40,800,000 Shares are held by Realchamp which is wholly-owned by Mr. Tam and Mr. Tam is the sole director of Realchamp. Mr. Tam is therefore taken to be interested in 40,800,000 Shares that Realchamp is interested; and

(b) 204,000,000 Shares are held by Beaute which is owned as to 50% by Apex Prima and 50% by Potentasia. Apex Prima is wholly-owned by Mr. Lam WM and Potentasia is wholly-owned by Mr. Tam. Mr. Tam is a director of Beaute and the sole director of Potentasia. Mr. Tam is therefore taken to be interested in 204,000,000 Shares that Beaute is interested.

3. Apex Prima is taken to be interested in an aggregate of 204,000,000 Shares held by Beaute which is owned as to 50% by Mr. Lam WM and 50% by Mr. Tam.

4. Potentasia is taken to be interested in an aggregate of 204,000,000 Shares held by Beaute which is owned as to 50% by Mr. Lam WM and 50% by Mr. Tam.

5. Achieve Best holds 40,800,000 Shares. Achieve Best, together with Mr. Lam WM and Apex Prima, are entitled to exercise or control the exercise of 61.2% of the voting power at general meetings of the Company. Achieve Best is therefore deemed a controlling shareholder of the Company under the Listing Rules.

6. Realchamp holds 40,800,000 Shares. Realchamp, together with Mr. Tam and Potentasia, are entitled to exercise or control the exercise of 61.2% of the voting power at general meetings of the Company. Realchamp is therefore deemed a controlling shareholder of the Company under the Listing Rules.

The Controlling Shareholders confirm that other than the possible transactions between the Group and the KARIO Group (which in turn has become a member of the Group pursuant to the Reorganisation in preparation for the listing), all the related party transactions disclosed in Appendix I to this prospectus will not continue after listing. The Controlling Shareholders further confirm that there will be no substantial or continuing connected party transactions between the Controlling Shareholders and the Company after listing. The Company is therefore satisfied that it is capable of carrying on its business independently of any of the Controlling Shareholders (including any associate thereof) after listing.

In addition, the Controlling Shareholders do not currently carry on business which is competing with that carried on by the Group and they have no current intention to set up such competing business. The Controlling Shareholders have executed a non-competition undertaking in favour of the Company, brief details of which are set in the paragraph headed "Non-competition undertaking" in the section headed "Business" in this prospectus.

SUBSTANTIAL SHAREHOLDERS

Immediately following completion of the Share Offer and the Capitalisation Issue (but taking no account of any Shares which may fall to be issued upon the exercise of the options which have been granted under the Pre-IPO Share Option Scheme or may be granted under the Share Option

Scheme or the subscription rights attaching to the Warrants), so far as is known to the Directors, the following person are the substantial shareholders (or defined in the Listing Rules) of the Company:

Name	Number of Shares directly or indirectly held immediately following completion of the Share Offer and the Capitalisation Issue	Approximate percentage of interest in the Company immediately following completion of the Share Offer and the Capitalisation Issue
Mr. Lam WM	244,800,000 *(Note)*	61.2%
Mr. Tam	244,800,000 *(Note)*	61.2%
Beaute	204,000,000 *(Note)*	51%
Achieve Best	40,800,000 *(Note)*	10.2%
Realchamp	40,800,000 *(Note)*	10.2%
Apex Prima	204,000,000 *(Note)*	51%
Potentasia	204,000,000 *(Note)*	51%

Note: Please see notes under the "Controlling Shareholders" in this section

UNDERTAKINGS

Each of the Controlling Shareholders has undertaken to the Stock Exchange and the Company that he/it shall not and shall procure that the relevant registered holder(s) and that none of his/its associates or companies controlled by him/it or any nominee or trustee holding in trust for him/it shall not:

(i) for a period commencing on the date of this prospectus and ending on the date which is 6 months from the date on which dealings in the Shares and Warrants commence on the Stock Exchange (the "First Six-Month Period"), sell, transfer or otherwise dispose of, nor enter into any agreement to dispose of or otherwise create any options, rights, interests or encumbrances in respect of, any of the Shares or securities of the Company owned by him/it or the relevant company controlled by it/him which is directly or indirectly, the beneficial owner of any of the Shares or securities of the Company (the "Relevant Securities"); or

(ii) for a period of 6 months commencing on the date immediately after the expiry of the First Six-Month Period (the "Second Six-Month Period") , sell, transfer or otherwise dispose of, nor enter into any agreement to dispose of or otherwise create any options, rights, interests or encumbrances in respect of, any of the Relevant Securities if, immediately following such sale, transfer or disposal or upon the exercise of enforcement of such options, rights, interests or encumbrances, the Controlling Shareholders taken together would cease to be a controlling shareholder (as defined in the Listing Rules).

Each of the Controlling Shareholders has also undertaken to the Stock Exchange and the Company that during the First Six-Month Period and the Second Six-Month Period, he/it shall:

(i) when he/it pledges/charges any securities or interests in the securities of the Company beneficially owned by him/it in favour of an authorised institution pursuant to Note (2) to Rule 10.07(2) of the Listing Rules, immediately inform the Company of such pledge/charge together with the number of securities so pledged/charged; and

(ii) when he/it receives indications, whether verbal or written, from the pledgee/chargee that any of the pledged/charged securities will be sold, transferred or disposed of, immediately inform the Company of such indications.

The Company shall inform the Stock Exchange as soon as it has been informed of matters referred to in Notes (3)(i) and (ii) to Rule 10.07(2) of the Listing Rules by a Controlling Shareholder and disclose such matters by way of an announcement which is published in the newspapers as soon as possible.

Mr. Chan, being one of the executive Directors, has undertaken to the Company, the Underwriters, the Bookrunner and the Lead Manager and each of them that without the prior written consent of the Bookrunner and the Lead Manager (for themselves and on behalf of the Underwriters), he shall not, and shall procure that the relevant registered holder(s) and his associates or companies controlled by him or any nominee or trustee holding in trust for him will not, at any time:–

(a) in the First Six-Month Period, (i) sell, transfer or otherwise dispose of, or enter into any agreements to dispose of or otherwise create any options, rights, interests or encumbrances in respect of any of those Shares and other securities directly owned by him or in which he is, directly or indirectly, interested as shown by this prospectus (for the avoidance of doubt, including without limitation the Shares to be issued pursuant to the Capitalisation Issue and the Warrants to be issued upon completion of the Share Offer and the Capitalisation Issue) (the "Director's Securities") or (ii) enter into any transaction (including without limitation a swap or other derivative transaction) that transfers in whole or in part any of the economic consequences of ownership of the Director's Securities or (iii) dispose of or agree to dispose of any interest in any shares in any company controlled by him which is the beneficial owner of any of the Director's Securities; and

(b) in the Second Six-Month Period, sell, transfer or otherwise dispose of or enter into any agreement to dispose of or otherwise create any options, rights, interests or encumbrances in respect of any of the Director's Securities or dispose of or agree to dispose of any interest in any shares in any company controlled by him which is the beneficial owner of any of the Director's Securities if immediately following such disposal or upon the exercise or enforcement of such options, rights, interests or encumbrances, he would cease to own or interested in 30% or more of any class of the Director's Securities.

SHARE CAPITAL

Authorised share capital		*HK$*
1,000,000,000	Shares	1,000,000

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

Number of Share		*HK$*
100,000,000	Shares in issue at the date of this prospectus	100,000
200,000,000	Shares to be issued pursuant to the Capitalisation Issue	200,000
100,000,000	Shares to be issued pursuant to the Share Offer	100,000
400,000,000	Shares	400,000

Note:

Assumptions

The above table assumes that the Share Offer and the Capitalisation Issue become unconditional but takes no account of any Shares which may fall to be issued upon the exercise of any options which have been granted under the Pre-IPO Share Option Scheme or may be granted under the Share Option Scheme or the subscription rights attaching to the Warrants or under the general mandate to issue Shares (see below "General mandate to issue new Shares''), or securities which may be repurchased by the Company (see below "General mandate to repurchase securities of the Company'').

Ranking

The Offer Shares will rank pari passu in all respects with all Shares then in issue or to be issued and, in particular, will qualify for all dividends or other distributions thereafter declared, paid or made on the Shares save for participation in the Capitalisation Issue.

Warrants

Warrants will be issued by way of bonus issue to all Shareholders whose names appear on the register of members of the Company as at completion of the Share Offer and the Capitalisation Issue, in the proportion of one Warrant for every four Shares. Immediately after completion of the Share Offer and the Capitalisation Issue, Warrants in unit(s) of HK$0.30 of subscription rights to subscribe up to HK$30,000,000 in aggregate for Shares will be in issue and exercise in full of the subscription rights attaching to such Warrants at the Subscription Price per Share (subject to adjustment) would result in the issue of 50,000,000 Shares.

Share Option Schemes

The Company has conditionally adopted the Pre-IPO Share Option Scheme and the Share Option Scheme whereby such selected class of participants (as more particularly described in Appendix VIII to this prospectus) have been or may be granted options to subscribe Shares at the discretion of the Board. The principal terms of the Pre-IPO Share Option Scheme and the Share Option Scheme are summarised under the paragraphs headed "Pre-IPO Share Option Scheme" and "Share Option Scheme" respectively in Appendix VIII to this prospectus.

General mandate to issue new Shares

A general unconditional mandate has been granted to the Directors to allot, issue and deal with (otherwise than by way of rights issues, by virtue of scrip dividend schemes or other similar arrangements in accordance with the Articles or pursuant to the exercise of the options granted under the Pre-IPO Share Option Scheme or to be granted under the Share Option Scheme) on behalf of the Company, Shares with an aggregate nominal value of not exceeding the sum of:

(i) 20% of the aggregate nominal value of the share capital of the Company in issue immediately after completion of the Share Offer and the Capitalisation Issue; and

(ii) the aggregate nominal amount of share capital of the Company repurchased under the authority granted to the Directors referred to in the paragraph headed "General mandate to repurchase securities of the Company'' below.

This mandate will remain in effect until whichever is the earlier of:

(i) the conclusion of the next annual general meeting of the Company; or

(ii) the expiration of the period within which the next annual general meeting of the Company is required by any applicable law or the Articles to be held; or

(iii) the time when such mandate is revoked or varied by an ordinary resolution of the Shareholders in general meeting.

For further details of this general mandate, see the section headed "Written resolutions of all the Shareholders passed on 27th May, 2005" in Appendix VIII to this prospectus.

General mandate to repurchase securities of the Company

A general unconditional mandate has been granted to the Directors to exercise all the powers of the Company to repurchase on the Stock Exchange or on any other stock exchange on which the securities of the Company are listed (and which are recognised by the SFC and the Stock Exchange for this purpose), and which are in accordance with the Listing Rules, such numbers of securities of the Company as will represent up to 10% of the aggregate nominal amount of the share capital of the Company in issue immediately after completion of the Share Offer and the Capitalisation Issue and up to 10% of the amount of Warrants in issue immediately after completion of the Share Offer and the Capitalisation Issue.

This mandate will remain in effect until whichever is the earlier of:

(i) the conclusion of the next annual general meeting of the Company; or

(ii) the expiration of the period within which the next annual general meeting of the Company is required by any applicable law or the Articles to be held; or

(iii) the time when such mandate is revoked or varied by an ordinary resolution of the Shareholders.

For further details of this general mandate, see the section headed "Repurchase of securities by the Company'' in Appendix VIII to this prospectus.

INDEBTEDNESS

Borrowings

As at the close of business on 31st March, 2005, being the latest practicable date for the purpose of this indebtedness statement prior to the printing of this prospectus, the Enlarged Group had outstanding borrowings of approximately HK$99.2 million comprising:

	HK$'000
Short-term debts:–	
Secured trust receipt loan	71,629
Current portion of secured long-term bank loans	18,375
Current portion of obligation under finance leases	992
Long-term debts:–	
Secured long-term bank loans	7,622
Obligation under finance leases	621
	99,239

The total banking facilities secured by the Enlarged Group consist of trade financing, short term loans, overdraft facilities and finance leases amounting to approximately HK$193.6 million, out of which approximately HK$99.2 million were utilized as up to 31st March, 2005. These utilized facilities comprised mainly trade financing facilities, finance leases and short term bank loans amounting to approximately HK$99.2 million, out of which approximately HK$91.0 million, representing approximately 91.7% of the total utilized banking facilities, will mature within one year, whereas long-term debts of approximately HK$8.2 million will mature after one year and up to March 2008. The banking facilities secured by the Enlarged Group are mainly utilised for the purpose of operating the manufacturing business of the Enlarged Group including mould making.

The net book value of assets under finance leases as at the date of indebtedness amounted to approximately HK$6.9 million.

Securities and guarantees

As at 31st March, 2005, the Enlarged Group's banking facilities of approximately HK$193.6 million were secured by the following:

1. Fixed deposits placed with banks to the amount totaling HK$6.0 million;

2. Personal guarantee by directors, Mr. Lam WM and Mr. Tam; and

3. Certain leasehold land and buildings of Kenford and related companies, namely V. Link Development Limited (which directors are Mr. Lam WM and his spouse, Ms. Poon Yuet Yi, Phyllis) and Lightwin Resources Limited (which directors are Mr. Tam and his spouse, Ms. Yuen Kim Hing, Claudia).

The charged properties of Kenford are Units 1106, 1107 and 1108 on 11th Floor, Riley House, 88 Lei Muk Road, Kwai Chung, New Territories, Hong Kong and its net book value as at 31st December, 2004 was approximately HK$11,904,000.

The charged property of V. Link Development Limited is Flat A, 31st Floor, Tower 4, with Car Park No. 19 on LG2, Dynasty Court, 23 Old Peak Road, Hong Kong and its net book value (recorded by the related company) as at 31st December, 2004 was approximately HK$16,817,000.

The charged properties of Lightwin Resources Limited are Flat 6, 8th Floor, Block A, Sui Wo Court, Shatin, New Territories and House 12, Sunderland Estate, 1 Hereford Road, Kowloon Tong, Kowloon and their net book value (recorded by the related company) as at 31st December, 2004 were approximately HK$26,160,000.

Release from securities and guarantees

Applications have been made to the relevant banks for the release of the joint and several personal guarantees provided by Mr. Lam WM and Mr, Tam in favour of the relevant banks in respect of liabilities due by the Enlarged Group and the discharge of the charges on leasehold land and buildings of Kenford and V. Link Development Limited and Lightwin Resources Limited to be replaced by corporate guarantees to be provided by the Company upon and subject to the listing of the Shares and the Warrants on the Stock Exchange. The banks have agreed in principle to release such guarantees and discharge such charges.

Contingent liabilities

(i) As at 31st March, 2005, the Enlarged Group had contingent liabilities in respect of bills discount to bank with recourse amounting to approximately HK$14.3 million.

(ii) A High Court action was commenced by WIK Far East Limited (the "Plaintiff") against a subsidiary of the Company (the "Defendant") on 27th April, 2004 in respect of alleged infringements of a patent registered by the Plaintiff in respect of certain retractable brushes manufactured and sold by the Defendant. Detailed summary of the said litigation is set out under the paragraph headed "Litigation and contingent claims" in the section headed "Risk factors" in this prospectus.

The Directors confirm that as at the Latest Practicable Date, no settlement has been reached by the parties and given that trial has not yet commenced and the parties are still at a relatively early stage of the litigation, no judgements on the quantum of damages have been made against the Defendant in respect of such litigation.

The Directors are of the opinion that, in the event that the Defendant fails in its defence, the amount of the ultimate costs and damages (if any) arising from such litigation, though cannot be ascertained or quantified at this early stage, based on the advice from the counsel retained by the Defendant in the Litigation and the Company's Hong Kong legal advisers and assuming that the Plaintiff will claim for damages for loss of profits, or at its discretion, for accounts of profits, it will not have a material adverse impact on the Enlarged Group's financial position.

Notwithstanding the above, the Controlling Shareholders have jointly and severally agreed and undertaken to indemnify the Enlarged Group from and against any claims, losses, expenses (including legal costs) which may be incurred by the Enlarged Group in connection with the above litigation. Further details of the deed of indemnity are set out in the paragraph headed "Indemnities" in Appendix VIII to this prospectus.

Disclaimers

Save as aforesaid and apart from intra-group liabilities, the Enlarged Group did not have any outstanding mortgages, charges, debentures or other loan capital issued or outstanding or agreed to be issued, bank overdrafts, loans or other similar indebtedness, or finance leases and hire purchase contracts or any guarantees or other material contingent liabilities outstanding as at the close of business on 31st March, 2005.

The Directors have confirmed that there has not been any material changes in the indebtedness and contingent liabilities of the Enlarged Group since 31st March, 2005.

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

Net current assets

As at the close of business on 31st March, 2005, the Enlarged Group had net current assets of approximately HK$7.8 million. Components of current assets and current liabilities comprise:

	HK$'000
Current assets	
Inventories	60,190
Accounts and bills receivable	52,325
Deposits, prepayments and other receivables	16,216
Pledged bank deposit	6,052
Cash and cash equivalents	77,166
	211,949
Current liabilities	
Accounts and bills payable	60,396
Accruals and other payables	17,557
Dividends payable	32,489
Borrowings – due within one year	90,004
Obligations under finance leases – due within one year	992
Taxation payable	2,688
	204,126
Net current assets	7,823

The current assets were funded by internal resources and banking facilities provided by its bankers. The dividend payable is intended to be settled before the Listing Date by way of offsetting current accounts due from Mr. Lam WM and Mr. Tam and cash payments funded by internal resources.

Capital commitments

As at 31st March, 2005, the Enlarged Group had capital commitments in respect of acquisition of plant and equipment as follows:

	HK$'000
Contracted for but not provided in the financial statements	3,532

Debt securities

As at 31st March, 2005, the Enlarged Group had no debt securities.

Borrowing and banking facilities

The Enlarged Group generally funds its operations with internally generated resources and banking facilities granted by its bankers in Hong Kong.

As at 31st March, 2005, the Enlarged Group had aggregate composite banking facilities of approximately HK$193.6 million, of which HK$99.2 million had been utilised and which were secured by HK$6.0 million fixed deposits, personal guarantee by Directors and certain leasehold land and buildings of Kenford and related companies.

As at 31st March, 2005, the Enlarged Group's bank borrowings of approximately HK$91.0 million were repayable on demand or within one year.

As at 31st March, 2005, the net book values of assets of the Enlarged Group under finance leases amounted to approximately HK$6.9 million.

Working capital

Taking into account the financial resources available to the Enlarged Group including internally generated funds, the available banking facilities and the estimated net proceeds from the issue of new Shares under the Share Offer, the Directors are of the opinion that, the working capital available to the Enlarged Group is sufficient for its present requirements, that is for at least the next 12 months from the date of this prospectus.

Dividends

Kenford declared dividends in the amount of HK$2.8 million, HK$80.0 million and HK$10 million for the year/period ended 31st March, 2003, 31st March, 2004 and 31st December, 2004 respectively.

In connection with the Reorganisation and in preparation for the Share Offer, the directors of Kenford declared dividends in favour of Mr. Lam WM and Mr. Tam, the then shareholders of Kenford, in the respective amount of HK$10.0 million in December 2004 and HK$30.0 million in March 2005. Of the aforesaid dividend of HK$10.0 million, Kenford has paid approximately HK$7.5 million by way of offsetting current account due from Mr. Lam WM and Mr. Tam. The balance of HK$2.5 million, together with the aforesaid dividend of HK$30.0 million, are intended to be settled before the Listing Date by way of offsetting current accounts due from Mr. Lam WM and Mr. Tam and cash payments funded by internal resources. The amounts of dividends declared historically are not indicative of the dividends that the Enlarged Group may pay in the future.

The amount of any dividends to be declared in the future will depend on, among other things, the Enlarged Group's results of operations, cash flows and financial conditions, operating and capital requirements.

Foreign exchange

During the Track Record Period, the Group's revenue was mainly denominated in US Dollars. For the two years ended 31st March, 2003, the costs for the purchase of direct materials were incurred mainly in Hong Kong Dollars and US Dollars. As for the year ended 31st March, 2004 and the nine months ended 31st December, 2004, the costs for the purchase of direct materials were incurred mainly in Hong Kong Dollars, US Dollars and Japanese Yen. As for all other operational expenses, Renminbi and Hong Kong Dollars were predominantly used during the Track Record Period.

All of the Group's borrowings are denominated in HK Dollars. The Directors expect that this will continue to be the case following the listing of the Shares on the Stock Exchange, thus the Directors consider that the Group is generally not exposed to any material foreign currency exchange risk unless circumstances require other than that some of the Group's purchases of raw materials are denominated in Japanese Yen. The Group may from time to time attempt to use instruments in the foreign currency market to hedge the risk against fluctuations of currencies.

DISCLOSURE UNDER RULES 13.13 TO 13.19 OF THE LISTING RULES

The Directors have confirmed that, as at the Latest Practicable Date, they were not aware of any circumstances which would give rise to a disclosure requirement under Rules 13.13 to 13.19 of the Listing Rules save as the trade receivables of approximately HK$21 million (which was interest-free, unsecured, and due with a credit period of 60-day) outstanding at 31st December, 2004 from the group companies of Rayovac Corporation (including Remington Prod Aus Pty Ltd), being a major customer of the Group and an Independent Third Party, which represented approximately 9.5% of the market capitalisation of the Company of HK$220 million based on the Offer Price of HK$0.55.

SELECTED COMBINED FINANCIAL INFORMATION

		Year ended 31st March,			Nine months ended 31st December,	
		2002	**2003**	**2004**	**2004**	**2003**
	Notes	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000 (Unaudited)*
Turnover	*1*	290,323	284,882	301,634	383,654	239,147
Cost of sales		(241,621)	(215,111)	(232,979)	(295,981)	(180,828)
Gross profit		48,702	69,771	68,655	87,673	58,319
Other revenue	*2*	8,761	4,820	6,790	5,878	5,482
Impairment loss on land and buildings		–	–	(583)	–	–
Loss on disposals of property, plant and equipment		–	(3,473)	–	–	–
Selling and distribution expenses		(9,925)	(9,438)	(8,356)	(6,647)	(6,461)
General and administrative expenses		(31,975)	(26,330)	(27,890)	(22,138)	(20,573)
Profit from operations		15,563	35,350	38,616	64,766	36,767
Finance costs		(6,406)	(5,054)	(3,495)	(2,716)	(2,652)
Revaluation deficit	*3*	–	(2,020)	–	–	–
Gain on disposal of subsidiaries	*4*	–	20,504	–	–	–
Gain on disposal of associates	*5*	–	790	22	–	22
Share of profits and losses of associates		36	(802)	(11)	–	(11)
Profit before taxation		9,193	48,768	35,132	62,050	34,126
Taxation		(742)	364	(4,056)	(5,132)	(3,909)
Net profit attributable to shareholders		8,451	49,132	31,076	56,918	30,217
Dividends		–	2,828	80,000	10,000	–
Basic earnings per share *(cents)*	*6*	2.82	16.38	10.36	18.97	10.07

Notes:

1. Turnover represents revenue generated from sales of electrical hair care products, electrical health care products and other small household electrical appliances.

2. Other Revenue

	Year ended 31st March,			Nine months ended 31st December,	
	2002	**2003**	**2004**	**2004**	**2003**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
					(Unaudited)
Reimbursement of mould costs	7,327	2,159	2,291	2,356	1,583
Commissions income	170	1,899	3,784	2,563	3,304
Gain on disposals of property, plant and equipment	–	–	146	–	146
Exchange gain, net	232	–	–	–	–
Rental income from investment properties	316	252	–	–	–
Interest income	74	133	187	75	142
Sample sales	88	85	24	45	23
Sundry income	554	292	358	839	284
	8,761	4,820	6,790	5,878	5,482

3. Revaluation deficit represents the downward revaluation of the investment properties held by the then subsidiaries of Kenford, Smart Host International Development Limited and Union Nice Limited to their open market values of HK$3,880,000 and HK$4,200,000, respectively.

4. Gain on disposal of subsidiaries represents the gain made upon disposal of the then subsidiaries of Kenford, Smart Host International Development Limited and Union Nice Limited at the consideration of HK$2 each.

5. Gain on disposal of associates represents the gain made upon the disposal of its 50% interest in KARIO in March 2003 and 50% interest in Unix Electronics (HK) Limited in December 2003 at the consideration of HK$1 and HK$1,000,000, respectively.

6. The calculation of basic earnings per share is based on the Group's combined net profit attributable to shareholders for the relevant periods and on the assumption that 300,000,000 Shares are in issue and issuable, comprising 100,000,000 Shares in issue as at the date of this prospectus and 200,000,000 Shares to be issued pursuant to the Capitalisation Issue as set out in Appendix VIII to this prospectus.

According to paragraph 27 of Part I of the Third Schedule to the Companies Ordinance, the Company is required to include in this prospectus a statement as to the gross trading income or sales turnover of the Group and the KARIO Group during the three financial years immediately preceding the issue of this prospectus.

According to paragraph 31 of Part II of the Third Schedule to the Companies Ordinance, the Company is required to include in this prospectus a report by the auditors and reporting accountants of the Company with respect to the financial results of the Group and the KARIO Group for each of the three financial years immediately preceding the issue of this prospectus.

Pursuant to Rule 4.04(1) and Rule 4.04(2) of the Listing Rules, the Company is required to include in this prospectus the accountants' reports of the Group and the KARIO Group covering the combined results of the Group and the consolidated results of the KARIO Group in respect of each of the three financial years immediately preceding the issue of this prospectus.

The accountants' reports of the Group and the KARIO Group for each of the three years ended 31st March, 2004 and the nine months ended 31st December, 2003 and 2004 have been prepared and are set out in Appendix I and Appendix II respectively to this prospectus. However, as this prospectus has been issued within a short period of time after 31st March, 2005, the accountants' reports have not been prepared for the full year ended 31st March, 2005 as it would be unduly burdensome for the Company to do so and impossible for the audited results for the year ended 31st March, 2005 to be finalised in such a short period of time.

In these circumstances, an application was made to the SFC for a certificate of exemption from strict compliance with paragraphs 27 and 31 of the Third Schedule to the Companies Ordinance in relation to the inclusion of the accountants' report of the Group and the KARIO Group for the full year ended 31st March, 2005 in this prospectus on the ground that it would be unduly burdensome for the Company to do so and a certificate of exemption has been granted by the SFC under section 342A(1) of the Companies Ordinance.

An application has also been made to the Stock Exchange for a waiver from strict compliance with Rule 4.04(1) and Rule 4.04(2) of the Listing Rules, and such waiver has been granted by the Stock Exchange.

The Directors have confirmed that they have performed sufficient due diligence on the Group and the KARIO Group to ensure that, save as disclosed herein, up to the date of issue of this prospectus, there has been no material adverse change in the financial position of the Group and the KARIO Group since 31st December, 2004, and there is no event which would materially affect the information respectively shown in the "Accountants' report" as set out in Appendix I to this prospectus and "Additional financial information of KARIO" in Appendix II to this prospectus.

BREAKDOWNS AND RATIOS

Breakdown of turnover

By product category

	Year ended 31st March,						Nine months ended 31st December,	
	2002		2003		2004		2004	
	(HK$'000)	%	*(HK$'000)*	%	*(HK$'000)*	%	*(HK$'000)*	%
Electrical hair care products	209,282	72%	213,564	75%	259,280	86%	357,637	93%
Electrical health care products	45,219	16%	22,330	8%	18,924	6%	12,332	3%
Other small household electrical appliances	35,822	12%	48,988	17%	23,430	8%	13,685	4%
Total	290,323	100%	284,882	100%	301,634	100%	383,654	100%

Note: The Directors attribute the decrease in sales of health care products and small household electrical appliance during the Track Record Period to the Group's focus on offering high-end or newly developed electrical hair care products which were more commonly used in salons for the mass household markets (particularly in Europe) and the Group's continuance to launch new kinds of hair styling apparatus.

By geographical market

	Year ended 31st March,						Nine months ended 31st December,	
	2002		2003		2004		2004	
	(HK$'000)	%	*(HK$'000)*	%	*(HK$'000)*	%	*(HK$'000)*	%
Europe	225,922	78%	215,203	76%	220,507	73%	289,267	75%
North and South America	27,279	9%	24,408	9%	26,506	9%	26,117	7%
Asia	20,036	7%	38,057	13%	28,628	9%	28,588	8%
Australia	8,016	3%	3,565	1%	19,625	7%	31,035	8%
Africa	9,070	3%	3,649	1%	6,368	2%	8,647	2%
Total	290,323	100%	284,882	100%	301,634	100%	383,654	100%

Profit and loss items expressed as percentage of turnover

	Year ended 31st March,			Nine months ended 31st December,	
	2002	**2003**	**2004**	**2004**	**2003**
	% of turnover	*% of turnover*	*% of turnover*	*% of turnover*	*% of turnover*
Turnover	100.0	100.0	100.0	100.0	100.0
Cost of sales	(83.2)	(75.5)	(77.2)	(77.1)	(75.6)
Gross profit	16.8	24.5	22.8	22.9	24.4
Other revenue	3.0	1.7	2.3	1.5	2.3
Impairment loss on land and buildings	–	–	(0.2)	–	–
Loss on disposal of property, plant and equipment	–	(1.2)	–	–	–
Selling and distribution expenses	(3.4)	(3.3)	(2.8)	(1.7)	(2.7)
General and administrative expenses	(11.0)	(9.2)	(9.2)	(5.8)	(8.6)
Profit from operations	5.4	12.5	12.9	16.9	15.4
Finance costs	(2.2)	(1.8)	(1.2)	(0.7)	(1.1)
Revaluation deficit	–	(0.7)	–	–	–
Gain on disposal of subsidiaries	–	7.2	–	–	–
Gain on disposal of associates	–	0.3	–	–	–
Share of profits and losses of associates	–	(0.3)	–	–	–
Profit before taxation	3.2	17.2	11.7	16.2	14.3
Taxation	(0.3)	0.1	(1.3)	(1.3)	(1.6)
Net profit attributable to shareholders	2.9	17.3	10.4	14.9	12.7
Dividends	–	1.0	26.5	2.6	–

MANAGEMENT DISCUSSION AND ANALYSIS OF OPERATING RESULTS

Investors should read the following discussion and analysis in conjunction with the combined financial information of the Group for the three years ended 31st March, 2004 and the nine months ended 31st December, 2004, all of which are set forth in the accountants' report set out in Appendix I to this prospectus. Except for the financial information as disclosed therein, the remainder of the Group's financial information presented in this section has been extracted or derived from the unaudited management accounts or other records of the Group which the Directors have taken reasonable care in their preparation. Investors should read the whole of the accountants' report and not rely merely on the information contained in this section.

Critical accounting policies and practices

The Group's discussion and analysis of its financial condition and results of operations is based on the combined financial statements prepared in accordance with accounting principles generally accepted in Hong Kong ("Hong Kong GAAP") as set out in Appendix I to this prospectus. The Group's principal accounting policies are set forth in note 1 to section F of the Group's combined financial statements. The Group's reported financial condition and results of operations are sensitive to accounting methods, assumptions and estimates that underlie the preparation of the combined financial statements. The Group bases its assumptions and estimates on historical experience, the experience of other companies in the industry and on various other assumptions that the Group believes to be reasonable, the results of which form the basis for making judgments about the carrying amounts of assets and liabilities and the Group's results. The Group's management evaluates its assumptions and estimates on a regular basis. Actual results may differ from these estimates, and the Group's estimates may differ from other estimates that could be made under different assumptions and conditions.

The selection of critical accounting policies, the judgments and uncertainties affecting application of those policies and the sensitivity of reported results and financial condition to change in conditions and assumptions are factors to be considered when reviewing the Group's combined financial statements. The Group believes that critical accounting policies involve the most significant judgments and estimates used in the preparation of its combined financial statements.

Recent Accounting Pronouncement

Hong Kong GAAP

The Hong Kong Institute of Certified Public Accountants ("HKICPA") has recently issued a number of new and revised Hong Kong Accounting Standards ("HKASs") and Hong Kong Financial Reporting Standards ("HKFRS") which are effective for accounting periods beginning on or after 1st January, 2005 and are required to be adopted by the Group for the year ending 31st March, 2006.

No early adoption of these new HKASs and HKFRS was carried out in the accountants' reports for the Group and for the KARIO Group as set out in Appendix I and Appendix II to this prospectus respectively. The Group has already commenced an initial assessment of the impact of these new HKASs and HKFRS and considered that the adoption of the new HKASs and HKFRS would not have a significant impact on the Group's results of operations and financial position. The Group will continue to assess the impact of the new HKASs and HKFRS.

Provision for doubtful debts

Provision is made against trade receivables to the extent that the amounts are considered to be doubtful. The management must make estimate on the likelihood of recoverability of the trade receivables from its customers. At the end of the accounting periods comprising the Track Record Period, the Directors of the Group reviewed each of the outstanding trade receivable balances on a customer-to-customer basis to assess their recoverability. In order to decide whether a provision for doubtful debts should be made, the Directors considered factors such as subsequent settlement information, creditability and past payment history for each of the customers. Due to low incidence of bad debt, no general provision was made based on aging analysis.

Provision for obsolete/slow moving inventories

The balances of the Group's inventories comprised raw materials, work in progress and finished goods. Specific provision is provided for slow moving and/or obsolete items. In determining whether a specific provision for inventories is required, the Directors take into consideration the aging status, physical conditions and subsequent usage/sales. All of the Group's inventories will be reviewed annually for obsolescence provisions made as appropriate.

Impairment of assets

The Directors carry out a review on the recoverable amount of assets when events or changes in circumstances indicate that the carrying value of the assets or the asset grouping may not be recoverable. Circumstances that would lead to impairment review by the Directors include a low utilization rate or a significant under-performance relative to expectation of a manufacturing facilities, significant changes or planned changes in the use of assets, significant negative industry or economic trends. If there is any indication that assets may be impaired, the Directors will exercise their judgement and estimate the recoverable amount. An impairment loss is then recorded to reduce the value of such assets to their recoverable amount. Such impairment loss is recognised in the combined results.

Property, plant and equipment and depreciation

Property, plant and equipment are stated at cost less accumulated depreciation and impairment losses, if any. The cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to its present working condition and location for its intended use. Expenditure incurred after property, plant and equipment have been put into operation, such as repairs and maintenance and overhaul costs, is normally charged to the income statement in the period in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of the asset, the expenditure is capitalised as an additional cost of the asset.

When property, plant and equipment are sold or retired, their cost, accumulated depreciation and impairment losses are eliminated and any gain or loss resulting from their disposal is included in the income statement.

Depreciation is provided to write off property, plant and equipment over their estimated useful lives on a straight-line basis, at the following annual rates:

Leasehold land in Hong Kong	Over the unexpired term of the lease
Buildings in Hong Kong	2.5%
Land and buildings in the PRC	2% to 5%
Leasehold improvements	20%
Plant and machinery	10%
Furniture, fixtures and equipment	20%
Motor vehicles	20%
Moulds	20%

Revaluation of investment properties

Investment properties are stated at their open market value based on valuations carried out at each balance sheet date, by independent professional valuers. The valuations are based on individual properties and separate values are not attributed to land and buildings.

Increase in valuation are credited to the investment property revaluation reserve. Decreases in valuation are first set off against increases on earlier valuations on a portfolio basis and thereafter are charged to the income statement. Any subsequent increases are credited to the income statement up to the amount previously charged.

Investment properties are not depreciated except where the unexpired term of the lease is 20 years or less in which case depreciation is provided on the carrying amount over the remaining term of the lease.

Upon the disposal of an investment property, the relevant portion of the revaluation reserve realised in respect of previous revaluations is released from the investment property revaluation reserve to the income statement.

Provisions and contingent liabilities

Provisions are recognised for liabilities of uncertain timing or amount when the Group has a legal or constructive obligation arising as a result of a past event, which will probably result in an outflow of economic benefits that can be reasonably estimated. Where the time value of money is material, provisions are stated at present value of the expenditure 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 of economic benefits is remote. Possible obligations, the existence of which 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 of economic benefits is remote.

Turnover

The Group's turnover is derived from the design, manufacture and sale of electrical hair care products, electrical health care products and other small household electrical appliances. Revenue from sale of goods is recognized when the title of goods sold has passed to the purchaser, which is at the time of delivery.

Set out below is a breakdown of the Group's combined turnover for the three years ended 31st March, 2004 and the nine months ended 31st December, 2004:

	Year ended 31st March,						Nine months ended 31st December,	
	2002		2003		2004		2004	
	HK$'000	*%*	*HK$'000*	*%*	*HK$'000*	*%*	*HK$'000*	*%*
Electrical hair care products	209,282	72	213,564	75	259,280	86	357,637	93
Electrical health care products	45,219	16	22,330	8	18,924	6	12,332	3
Small household electrical appliances	35,822	12	48,988	17	23,430	8	13,685	4
Total	290,323	100	284,882	100	301,634	100	383,654	100

Other revenue

Set out below is a breakdown of the Group's other revenue:

	Year ended 31st March,			Nine months ended 31st December,
	2002	2003	2004	2004
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Reimbursement of mould costs *(note)*	7,327	2,159	2,291	2,356
Commissions income	170	1,899	3,784	2,563
Gain on disposals of property, plant and equipment	–	–	146	–
Exchange gain, net	232	–	–	–
Rental income from investment properties	316	252	–	–
Interest income	74	133	187	75
Sample sales	88	85	24	45
Sundry income	554	292	358	839
Total	8,761	4,820	6,790	5,878

Note: The basis of reimbursement of mould costs varies as a result of the bargaining between individual customers and the Group with regard to the following commercial parameters:

(1) nature (ODM or OEM) of order of the product associated with the mould concerned;

(2) direct cost of design, research and manufacturing of the mould concerned;

(3) usage exclusivity of the mould concerned by the individual customer;

(4) usage duration of the mould concerned;

(5) geographical coverage of the product associated with the mould concerned;

(6) size of order of the product associated with the mould concerned; and

(7) likelihood of recurrence of order of the product associated with the mould concerned.

The Directors confirm that cost-reimbursement basis, cost-plus basis as well as the mark-up basis were applied by the Group according to different commercial scenarios and categories of customers.

The nature of the major items of other revenue derived during the Track Record Period is further set out in the following table:

Major items of other revenue	**Nature**
Reimbursement of mould costs	Represent customers' reimbursement of mould costs for the Group's manufacture of products.
Commissions income	Represent income earned from related companies for the introduction and referral of business opportunities and for rendering of overall management support.

The two major items of other revenue identified above are derived in the ordinary and usual course of business of the Group. Other than these two items, all other revenue identified above are derived from activities incidental to the operations of the Group.

Cost of sales

The Group's cost of sales primarily consists of raw materials cost, direct labour cost, depreciation, manufacturing overheads and subcontracting costs. For each of the three years ended 31st March, 2004 and the nine months ended 31st December, 2004, the cost of raw materials (mainly comprising plastics, heating elements, motors, metal, electronic and packing materials) represented the largest portion of the Group's cost of sales, accounting for approximately 75%, 81%, 78% and 85% respectively. The Group has also experienced an increase in both prices of plastics and metals during the Track Record Period due to general price increases in the market.

Expenses

The Group's expenses include selling and distribution expenses and general and administrative expenses.

Selling and distribution expenses consist of freight charges, declaration and custom duties, overseas traveling, commissions and others. General and administrative expenses mainly include directors' remuneration, staff salaries and benefits, depreciation for office equipment and fixtures and furniture, bank charges, insurance and various office expenses.

Financing activities

The Directors observed that the Hong Kong dollar market remained highly liquid throughout the year 2004 due to (i) the continuing weak investment and borrowing demands; (ii) interest rate differentiation; (iii) market-driven U.S. dollar policy by the U.S. government despite the increase in the U.S. interest rate; (iv) the performance of the U.S. government economical figures; and (v) the hot money for the purpose of speculation of appreciation of Renminbi.

The Directors also observed that the banking sector was also very liquid during the year 2004 resulting in further contraction of credit spreads for those they believed to be valued clients. The Group took advantage of this and entered into a number of Hong Kong Dollar general banking facilities with some of its key relationship banks totalling approximately HK$195 million for the nine months ended 31st December, 2004. These new transactions enabled the Group to obtain cost effective funding.

As at 31st March, 2005, the Group had total undrawn committed banking facilities amounting to approximately HK$94.4 million. The Directors envisage that these undrawn facilities together with cash on hand amounting to approximately HK$171.6 million can provide coverage for all of the Group's anticipated funding needs for at least the next 12 months from the date of this prospectus. As at 31st March, 2005, the Group's borrowings are primarily denominated in Hong Kong dollars.

During the Track Record Period, the Group had been utilizing its banking facilities predominately in the form of trade financing rather than overdraft since (i) banks can monitor the normal business activities of the Group more easily through the inward and outward bills transactions of the Group and therefore better understand the financing needs of the Group which in turn may enhance their confidence on the business operations of the Group; and (ii) the overall pricing on trade financing was more attractive than overdraft and other short term financing.

During the Track Record Period, the Group's interest coverage had been improving. As at 31st December, 2004, the weighted average short term loan (except those trade financing facilities charging on HIBOR basis) funding cost of the Group was approximately 4.3573% and 2.4714% from two of the major bankers of the Group. Regarding the HIBOR basis facilities (most of which were trade financing facilities), the weighted average funding cost of the Group was 2.0707% above HIBOR (most of them are 1 to 3 month HIBOR). For leasing arrangement, the weighted average funding cost of the Group was approximately 2.5345% above HIBOR. Following periodical reviews conducted and to be conducted by the Group's bankers, the Directors are confident to bargain for better pricings from its existing bankers in the future.

Treasury policies

The treasury policies of the Group are formulated by the Board and are implemented and controlled by the board of directors of the Group at its headquarter office in Hong Kong. The treasury policies of the Group aim to manage and invest its cash balance prudently and efficiently. Whilst it is the Group's treasury polices to minimise its idle cash level, the Group at the same time strives to maintain an optimal level of liquidity to ensure that the Group is well placed to meet its daily working capital requirements (including settlement of fixed overhead expenses and accounts payable to its suppliers) and to take advantage of growth opportunities for the business. From time to time, the Group scrutinizes various banking products and offers from bankers to see if they can meet the Group's needs. The Group also makes periodic review on prevailing market situation on interest rate, currency movement and banking charges. The treasury policies of the KARIO Group before it was acquired by the Group were similar to those of the Group.

As at 31st December, 2004, the cash and bank balances of the Group were held as to 43%, 56% and 1% in Hong Kong dollars, USD and RMB. As at 31st December, 2004, the cash and bank balances of the Group amounted to HK$135.3 million, representing an increase of 351% from those of HK$30.0 million as at 31st March, 2004.

Credit risk policy

Since the Group aims to maintain a credit policy that is appropriate for non-exposed default risk, a French based insurance company with AA rating has provided a credit insurance cover up to 90% on some of the Group's "open account trade" customers (which together accounted for approximately 66.7% of the total accounts receivable and bills receivable of the Group as at 31st December, 2004) subject to the sum insured on an open account basis during the insured period. Moreover, the senior management of the Group has been monitoring from time to time on various customers including their financial standing and buying behavior. It is the Group's usual practice to insist on irrevocable documentary credit issued by banks as the primary settlement method. Therefore, substantial portion of the sales proceeds had been derived from negotiation of these documentary credits with banks save and except payment of certain major customers of the Group has been settled by way of open account.

Currency risk policy

The Directors consider that currency risk exists in the normal course of business of the Group. During the Track Record Period, most of the Group's sales proceeds were denominated in USD. The Group anticipates that the "peg rate system" shall continue to operate under the supervision of Hong Kong Monetary Authority and hence consider that the Group's sales has not exposed to material foreign currency exchange risks. However, as some of the Group's purchases of raw materials are denominated in Japanese Yen, instruments such as currency forward options had been used for managing the underlying currency risk as the Directors so deem appropriate. As at 31st December, 2004, the Group has opened documentary credit with Japanese Yen amounting to approximately Yen 389 million (approximately HK$30 million) with various maturity dates up to March 2005.

Year ended 31st March, 2003 compared to year ended 31st March, 2002

Turnover

The Group's turnover was approximately HK$284.9 million and HK$290.3 million for the years ended 31st March, 2003 and 2002, respectively. There were no significant changes in turnover for the two years.

Cost of sales

Cost of sales of the Group decreased by approximately 11% from approximately HK$241.6 million for the year ended 31st March, 2002 to approximately HK$215.1 million for the year ended 31st March, 2003. The decrease in cost of sales were mainly resulted from the decrease in raw materials consumed, fuel cost and depreciation for the year. Fuel cost decreased since the factory shifted to use electricity provided by Dongguan local authority for the year ended 31st March, 2003. The total fuel cost plus water and electricity fee decreased by approximately HK$1.8 million (approximately 21%). In addition, depreciation expense decreased by HK$1.5 million as a result of substantial disposal and write-off of certain obsolete and inefficient plant and machinery incurred for the year 2002. Furthermore, raw materials consumed decreased by HK$7.3 million which was mainly due to different product mix. The sales of the higher margin products of the Group, electrical hair care products, increased in 2003. Despite of the increase in sales of such type of product, there was a decrease in the amount of raw materials consumed. This was due to the costs required for the production of such type of products were lower than that of electrical health care products and other small household electrical appliances. Finally, the Group experienced relocation of its factory from Shenzhen to Dongguan in the two financial years ended 31st March, 2001 and 2002 leading to some cost interruption in these years, which has caused the cost of sales to be comparably higher than the year ended 31st March, 2003.

Gross profit

Gross profit margin of the Group increased from 17% in 2002 to 24% in 2003, representing 43% increase. Such an increase in gross profit margin for the year 2003 was mainly due to a significant decrease in cost of sales as a percentage of revenue from 83% to 76%. The decrease in the absolute amount of cost of sales is discussed in the previous paragraph.

Other revenue

Other revenue decreased by approximately 45% from approximately HK$8.8 million for the year ended 31st March, 2002 to approximately HK$4.8 million for the year ended 31st March, 2003. The reimbursement of mould costs decreased significantly since the majority of the moulds were purchased in the years of pre-2003, i.e. before the factory relocation. The management planned to acquire the moulds (mainly attributing to large-sized ODM products of the Group which required relatively longer lead time for trial run by the Group's own plant and machinery before production) in advance in order to minimize the potential business interruption during the factory relocation period. It is the Group's policy to require the mould costs to be reimbursed in the first few years according to arrangement and normal trading practice. Hence, the proportion of the reimbursement received has decreased.

Expenses

Selling and distribution expenses in 2003 were approximately HK$9.4 million, which was slightly decreased from HK$9.9 million in the previous year. The overall decrease was mainly due to the decrease in carriage outwards as a result of the decrease in sales, decrease in promotion expenses, overseas travelling and commissions paid which was partially offset by the increase in declaration expenses.

General and administrative expenses recorded a drop of around HK$5.7 million from approximately HK$32.0 million in 2002 to HK$26.3 million in 2003 which was mainly due to the decrease in consultancy fee for technical support and business advisory services (including secretarial and managerial services) (by HK$3.5 million mainly due to termination of the relevant services from related parties) and decrease in staff costs (due to redundancy) (by HK$1.9 million). Also, the general and administration expenses was under control after the factory relocation.

Interest coverage of the Group increased from 2.4 in 2002 to 10.6 in 2003. There was a decrease in interest on bank loans, trust receipt loans and finance leases due to a general decrease in interest rates. The interest coverage of the Group had been kept improving since the net profit generated from operating activities had been kept increasing whereas the Group's reliance on debt financing had been kept constant.

Net profit margin

Net profit margin of the Group rose from approximately 3% in 2002 to 17% in 2003. Such increase was mainly attributable to the factors mentioned in turnover, cost of sales and expenses above and significant gain on disposal of subsidiaries.

Return on equity

Return on equity of the Group rose from 13% in 2002 to 45% in 2003. The increase was due to the significant increase in the net profit attributable to shareholders of approximately 481% to approximately HK$49.1 million. The increase in profit was primarily due to the significant gain on disposal of subsidiaries armed with the significant reduction in the cost of sales, and the overall expenses (excluding taxation expenses) by an aggregate amount of approximately HK$30.5 million in 2003. Meanwhile, the overall increase in the return on equity was a result of the rise in the profit attributable to shareholders and the decrease of shareholder's equity as a result of the distribution of dividend in the year 2003.

Year ended 31st March, 2004 compared to year ended 31st March, 2003

Turnover

For the year ended 31st March, 2004, the Group's turnover was approximately HK$301.6 million, representing an increase of approximately 6% from approximately HK$284.9 million in 2003. The increase in turnover was mainly due to the increase in demand (in terms of quantity) for the Group's electrical hair care products in the European and Australian markets and the success of the launching of a new kind of hair straighteners by the Group since October 2003. The amount of sales for such new kind of hair straighteners was about HK$57 million for the year ended 31st March, 2004. For the year ended 31st March, 2004, about 73% of the Group's turnover amounted to approximately HK$220.5 million, was derived from European market which was the largest sales market of the Group. There were no substantial change in the price ranges of the Group's products in general when compared with that of the previous year.

Cost of sales

Cost of sales of the Group increased by approximately HK$17.9 million or 8% from approximately HK$215.1 million in 2003 to approximately HK$233.0 million in 2004. Such increase was mainly driven by the increase of turnover and due to the increase in raw materials consumed by approximately HK$6.2 million and the increase in direct labour and indirect labour costs by approximately HK$2.4 million. The remaining increase was attributable to the increase in other factory overhead costs like consumable tools, repair and maintenance, water and electricity.

Gross profit margin

The gross profit margin of the Group fell slightly from 24% in 2003 to 23% in 2004 which was due to the more than proportional increase in cost of sales (such as raw materials and direct labour and indirect labour) over the increase in turnover. The increase in turnover was mainly due to the increasing in demand (in terms of quantity) for the Group's electrical hair care products in the European and Australian markets and the success of the launching of a new kind of hair straighteners by the Group since October 2003. The increase in cost of sales was mainly driven by the increase in sales and due to the increase in (i) raw material consumed; (ii) direct and indirect labour; and (iii) other factory overhead.

Other revenue

Other revenue increased by approximately HK$2.0 million or 41% from approximately HK$4.8 million for the year ended 31st March, 2003 to approximately HK$6.8 million for the year ended 31st March, 2004. The increase was mainly attributable to the increase in commissions income received from KARIO Group. It mainly came from the increase in the sales volume (which was referred by the Group) of KARIO Group, regardless the commission percentage decreased from 25% to 15%.

Expenses

Selling and distributable expenses in 2004 were approximately HK$8.4 million, decreased from approximately HK$9.4 million in the previous year. The decrease was mainly due to the decrease in carriage outwards (as a result of more usage of PRC based trucks which were cheaper in cost), declaration expenses (as a result of the level of usage of Hong Kong based ports decreased) and commission, which was partially offset by an increase in royalty charges.

The increase in general and administrative expenses from approximately HK$26.3 million in 2003 to approximately HK$27.9 million in 2004, representing an increase of approximately 6%, was mainly because of the increase in courier charges in the amount of HK$0.2 million (as a result of engagement in third party services), China levies in the amount HK$0.3 million (as a result of increase in custom duties and enterprises income tax), bank charges in the amount of HK$0.2 million, exchange losses in the amount of HK$0.8 million (as a result of depreciation in USD main currency (in settlement of accounts receivables) but appreciation in Japanese Yen (one of the currencies in settlement of accounts payable)) and staff costs in the amount of HK$0.7 million (as a result of increase in salary) in line with increases in sales.

Interest coverage of the Group had been improving and increased from 10.6 in 2003 to 11.1 in 2004. There was a decrease in interest paid on bank loans, trust receipt loans and finance leases during the year 2004 due to a general decrease in interest rates.

Net profit margin

Net profit margin dropped from 17% in 2003 to 10% in 2004, which was primarily due to the decrease in gross profit margin and significant gain in disposal of subsidiaries in 2003.

Return on equity

In 2004, the return on equity increased from 45% in 2003 to 51% in 2004. The increase was attributable to the decrease in equity as a result of the distribution of HK$80.0 million dividends from retained profits during the year.

Nine months ended 31st December, 2004

Turnover

For the nine months ended 31st December, 2004, the Group's turnover was approximately HK$383.7 million, of which approximately HK$357.6 million was contributed by the sales of hair care products, representing approximately 93% of the turnover of the Group. The Group's turnover in the nine months ended 31st December, 2004 was increased by 60% when comparing to the same period of the year 2003. The sharp increase was mainly attributed to the further increase in demand for the Group's electrical hair care products in the European market, including the acceptance of the Group's innovative products (new kind of hair straighteners) by the market.

Cost of sales

Cost of sales of the Group for the nine months ended 31st December, 2004 was approximately HK$296.0 million which was increased by 64% when comparing with cost of sales in the same period of 2003. The increase in cost of sales was due to the increase in raw materials consumed, direct and indirect labour costs and other factory overhead expenses which were in line with the increase in sales.

Gross profit margin

Gross profit margin of the Group for the nine months ended 31st December, 2004 was approximately 23% while that in 2003 was 24% which was due to the less than proportional increase in turnover over the increase in cost of sales (such as raw materials, direct and indirect labour costs and other factory overhead expenses). The increase in turnover was mainly attributed to the further increase in demand for the Group's electrical hair care products in the European market, including the acceptance of the Group's innovative products (a new kind of hair straighteners) by the market. The increase in cost of sales was due to the increase in cost of raw materials, direct and indirect labour costs and other factory overhead expenses.

Other revenue

Other revenue of the Group for the nine months ended 31st December, 2004 was approximately HK$5.9 million which comprised mainly reimbursement of mould costs and commissions income.

Expenses

For the nine months ended 31st December, 2004, selling and distribution expenses of the Group was approximately HK$6.6 million representing approximately 1.7% of the total turnover for the same period. This ratio was lower than that of 2.7% recorded for the nine months ended 31st December, 2003 (as a result of more usage of PRC based ports which were cheaper in cost); and general and administrative expenses was approximately HK$22.1 million. When comparing with the same period ended 31st December 2003, the general and administration expenses increased by around HK$1.6 million which was mainly due to the increase in depreciation as a result of the addition of fixed assets during the current period and the increase in bank charges resulted from the increase in usage of trust receipt loans.

Interest coverage of the Group for the nine months ended 31st December, 2003 was 13.9 and as a result of the continuous bargaining down of interest rate and continuous increase in operating profit, the interest coverage for the nine months ended 31st December, 2004 increased to 23.8.

Net profit margin

Net profit margin of the Group for the nine months ended 31st December, 2004 was approximately 15% compared with approximately 13% in the same period of 2003. The sharp increase in the net profit margin was primarily due to the increase turnover for the nine months ended 31st December, 2004.

Return on equity

On an annualised basis, return on equity of the Group during the nine months ended 31st December, 2004 was approximately 60%, compared with about 51% in 2004. The increase was due to the increase in annualised net profit generated for the nine months ended 31st December, 2004 as compared to 31st March, 2004. The Group had been maintaining a reasonable equity level in order to provide a reasonable return to its shareholders.

TAXATION

During the Track Record Period, the Group was principally subject to Hong Kong taxation only. Hong Kong profits tax had been provided at the rate of 16% for the two years ended 31st March, 2003 and 17.5% for the year ended 31st March, 2004 and for the nine months ended 31st December, 2004; and on the estimated assessable profit arising in or derived from Hong Kong.

The amount of taxation in the combined income statements represents:

	Year ended 31st March,			Nine months ended 31st December,	
	2002	**2003**	**2004**	**2004**	**2003**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
					(Unaudited)
Current profits tax – Hong Kong					
– Tax for the year/period	–	2,400	3,249	5,132	3,102
– Overprovision in respect of current year	–	–	128	–	–
– Overprovision in respect of prior year	–	–	(77)	–	–
	–	2,400	3,300	5,132	3,102
Deferred taxation					
– Current year/period	742	(244)	(169)	–	(118)
– Under/(over) provision in previous years	–	(2,700)	925	–	925
– Attributable to change in tax rate	–	180	–	–	–
	742	(2,764)	756	–	807
Tax charge/(credit) for the year/period	742	(364)	4,056	5,132	3,909

No provision for profit tax in the Cayman Islands or the British Virgin Islands has been made as the Group had no income assessable for profit tax in these jurisdictions for the Track Record Period.

Hong Kong profits tax has been provided for at the rate of 16%, 16%, 17.5%, 17.5% and 17.5% on the estimated assessable profits less allowable losses brought forward of the companies within the Group for the Track Record Period and the nine months ended 31st December, 2003 respectively.

The tax expense for the Track Record Period can be reconciled to the profit per the combined income statements as follows:

	Year ended 31st March,			Nine months ended 31st December,	
	2002	**2003**	**2004**	**2004**	**2003**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
					(Unaudited)
Profit before taxation	9,193	48,768	35,132	62,050	34,126
Applicable Hong Kong profits tax rate	16%	16%	17.5%	17.5%	17.5%
Tax charge at applicable Hong Kong profits tax rate	1,471	7,803	6,148	10,859	5,972
Tax effect of income that is not taxable in determining taxable profits (i)	(834)	(6,273)	(3,268)	(5,447)	(3,009)
Tax effect of expenditure that is not deductible in determining taxable profits	–	477	199	24	42
Tax effect of unused tax losses not recognized	117	96	–	–	–
Increase in deferred tax assets resulting from an increase in Hong Kong profits tax rate	–	180	–	–	–
Overprovision of profits tax in respect of prior year	–	–	(77)	–	–
Overprovision of profits tax in current year	–	–	128	–	–
Under/(over) provision of deferred tax liability in prior years	–	(2,700)	925	–	925
Tax effect of excess depreciation allowances over depreciation charges not recognised	–	–	–	(304)	–
Others	(12)	53	1	–	(21)
	742	(364)	4,056	5,132	(3,909)

(i) This amount mainly represent the tax effect of gain on disposal of subsidiaries and the 50% of assessable profit of Kenford during the Track Record Period which were exempted under Departmental Interpretation of Practice Notes 21 issued by the Inland Revenue Department of Hong Kong.

For the three years ended 31st March, 2004 and the nine months ended 31st December, 2004, the effective tax rates of the Group were 8%, (1)%, 12% and 8% respectively. The Group has been enjoying the 50:50 tax exemption under DIPN21. There was a tax credit in the year of 2003 since the tax charge was offset by an over provision of deferred tax liability in the previous year.

The over-provision of deferred tax liability for the year ended 31st March, 2002 was mainly due to a higher tax rate (16%) was applied to the calculation of deferred tax provision for Kenford. As Kenford enjoyed 50:50 tax exemption under DIPN21, a 8% should be applied for the purpose of calculation of deferred tax provision for the year ended 31st March, 2002. The over-provision of deferred tax liability of approximately HK$2,700,000 brought forward from 2002 was adjusted and reflected in the income statement for the year ended 31st March, 2003. The under-provision of deferred tax liability for the year ended 31st March, 2003 was mainly due to under records of non-ranking fixed assets items. The under records was resulted from the misclassification of non-ranking fixed assets as ranking fixed assets in the 2003 tax and deferred tax assessments. The under-provision of deferred tax liability of approximately HK$925,000 in 2003 was adjusted and reflected in the income statement for the year ended 31st March, 2004 as an additional provision of deferred tax liability.

SENSITIVITY

For each of the three years ended 31st March, 2004 and the nine months ended 31st December, 2004, the gross profit margins of the Group were approximately 17%, 24%, 23% and 23% respectively; and the net profit margins of the Group were approximately 3%, 17%, 10% and 15% respectively. For the purpose of sensitivity analysis, assuming that the price of raw materials had increased by 10% during the Track Record Period and everything else had remained constant, (i) the gross profit margins of the Group would have been lowered to approximately 10%, 18%, 17% and 16%; and (ii) the net profit margins of the Group would have been lowered to approximately, -3%, 11%, 4% and 8% respectively for each of the three years ended 31st March, 2004 and the nine months ended 31st December, 2004. Assuming that the wages had increased by 10% during the Track Record Period and everything else had remained constant, (i) the gross profit margins would have been approximately 16%, 24%, 22% and 22%; and (ii) the net profit margins of the Group would have been approximately 2%, 17%, 10% and 14% respectively for each of the three years ended 31st March, 2004 and the nine months ended 31st December, 2004.

In regards to the sourcing of raw materials, the Group purchases in bulk with volume discounts when they foresee the cost of raw materials would increase. In addition, the Group would consider hedging relevant commodities if appropriate.

In order to tackle the problem of labour shortage, part of the production procedures would be sub-contracted to outsiders. Also, the Group has been improving the working conditions and compensation package/rewards in order to retain and attract a stable labour force.

FINANCIAL AND LIQUIDITY POSITION

Set out below is a summary of the combined balance sheets of the Group as at 31st March, 2002, 2003 and 2004 and 31st December, 2004:–

	As at 31st March,			Nine months ended 31st December,
	2002	**2003**	**2004**	**2004**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
NON-CURRENT ASSETS	108,312	84,213	77,527	78,519
CURRENT ASSETS				
Inventories	36,701	41,755	50,867	60,348
Accounts and bills receivable	11,520	18,628	26,709	37,357
Deposits, prepayments and other receivables	1,502	2,755	4,225	10,715
Amounts due from directors	29,253	39,001	–	–
Amounts due from related companies	582	17,770	10,338	13,515
Pledged bank deposits	2,561	6,084	6,043	6,048
Cash and cash equivalents	12,696	23,176	30,020	135,261
TOTAL ASSETS	203,127	233,382	205,729	341,763
CURRENT LIABILITIES				
Accounts and bills payable	45,434	34,941	38,001	71,618
Accruals and other payables	12,301	7,647	12,133	12,725
Dividends payable	–	2,828	17,429	9,867
Amounts due to directors	2,986	–	–	–
Amount due to a related company	–	–	943	–
Borrowings – due within one year	31,037	51,965	61,843	120,647
Bank overdrafts, Secured	197	1,736	–	–
Obligations under finance lease – due within one year	4,106	1,959	2,387	1,510
Taxation payable	–	2,047	317	5,449
NON-CURRENT LIABILITIES				
Borrowings – due after one year	35,468	15,895	7,841	8,352
Obligations under finance lease – due after one year	3,065	2,291	930	772
Deferred tax liabilities	4,742	1,978	2,734	2,734
TOTAL LIABILITIES	139,336	123,287	144,558	233,674

Non-current assets

The Group's non-current assets during the Track Record Period comprised property, plant and equipment and interests in associates. Property, plant and equipment includes leasehold land and buildings in Hong Kong, land and buildings in the PRC, investment properties, leasehold improvements, plant and machinery, fixtures and furnitures and equipment, motor vehicles and moulds. The balances of the non-current assets were approximately HK$108.3 million, HK$84.2 million, HK$77.5 million and HK$78.5 million as at 31st March, 2002, 2003, 2004 and 31st December, 2004 respectively. The continuous decrease in net book value of the non-current assets was mainly because of the accumulated effect of the depreciation expenses incurred together with the disposal and write-off of obsolete and inefficient machineries which outweighed the additions of non-current assets.

During the Track Record Period, the Group disposed of certain subsidiaries and associates, namely, Smart Host International Development Limited (with net deficit of HK$10.8 million as at 31st March, 2003), Union Nice Limited (with net deficit of HK$9.7 million as at 31st March, 2003) and Unix Electronics (HK) Limited. The basis of consideration for disposal of these subsidiaries and associates of the Group was at par value and the total consideration for each of Smart Host International Development Limited. Union Nice Limited and Unix Electronics (HK) Limited were HK$2, HK$2 and HK$1,000,000, respectively. On such basis, and given that the net assets values of these subsidiaries were negative and the net assets values of the associates were lower than the consideration at the time of disposal, there were gains on disposals of the certain subsidiaries and associates of the Group during the Track Record Period. The events leading to the significant disposals of property, plant and equipment of the Group in the year ended 31st March, 2003 were:

(i) disposal of plant and machinery of Kenford to a related party and disposal of and write-off of certain old and obsolete machinery and equipment (comprising fixed assets at cost of HK$48,863,000 and net book value of HK$44,207,000 in total, incurring an overall loss on disposal of HK$3,473,000) (to be elaborated in the next paragraph),

(ii) disposal of 100% shareholding interests in Smart Host International Development Limited (comprising an investment property at open market value of HK$3,880,000), and

(iii) disposal of 100% shareholding interests in Union Nice Limited (comprising an investment property at open market value of HK$4,200,000).

As regards point (i) above, during the year ended 31st March, 2003, Kenford disposed of certain machineries at a consideration of approximately HK$1,132,000 to a related party, KARIO of which Mr. Tam, Mr. Lam WM and Mr. Chan were directors and shareholders. The Directors confirm that the consideration was determined by mutual agreement between both parties after taking into consideration the then market price of new machineries and the status and working condition of the individual machineries disposed of. This resulted in a gain on disposal under the book of Kenford amounting to approximately HK$568,000. In the same year, the Group also disposed of certain old and obsolete machinery and equipment, the net book values and resulted loss on disposal of them were approximately HK$4,041,000. Such disposal was a result of poor working condition and high maintenance cost of the machinery and equipment.

The Group disposed of its entire 50% interests in KARIO to a senior officer, Mr. Lam WH, the younger brother of Mr. Lam WM on 31st March, 2003.

Inventories

The Group had inventory balances of approximately HK$36.7 million, HK$41.8 million, HK$50.9 million and HK$60.3 million as at 31st March, 2002, 2003, 2004 and 31st December, 2004 respectively. The continuous increase in inventory balances of the Group was due to the general increase in demand for electrical hair care products in the Group's main selling market, Europe and the success of the introduction of the Group's innovative products since the last quarter in the calendar year of 2003. In addition, the balance as at 31st December, 2004 should be higher than that as at 31st March, 2004 since the Group intended to pile up more inventory as at 31st December, 2004 in order to cope with the increasing demand for the Group's products in the coming months.

The inventory turnover days of the Group were 46 days, 53 days, 62 days and 43 days for each of the year ended 31st March, 2002, 2003, 2004 and 31st December, 2004, respectively. The inventory turnover days increased from 46 days for the year ended 31st March, 2002 to 53 days for the year ended 31st March, 2003. The Directors consider that the inventory turnover had been maintained at a level within the production lead time (i.e. from 45 to 60 days). The increase of inventory turnover days of the Group from 53 days in 2003 to 62 days in 2004 was due to the relative increase in closing stock as a percentage of turnover. The inventory level kept at 31st March, 2004 was higher than that at 31st March, 2003 in order to cope with the coming increase in sales. The inventory turnover days of the Group decreased from 62 days in 2004 to 43 days for the nine months 31st December, 2004. The exceptionally low inventory turnover days was due to the significant increase in sales for the nine months ended 31st December, 2004.

Accounts and bills receivable

Accounts and bills receivable as at 31st March, 2002, 2003, 2004 and 31st December, 2004 amounted to approximately HK$11.5 million, HK$18.6 million, HK$26.7 million and HK$37.4 million respectively. The gradual increase of the balances from 31st March, 2002 to 31st March, 2004 was mainly due to the general increase in sales during the Track Record Period. The general increase in demand for electrical hair care products in the Group's main selling market, Europe and the successful introduction of the Group's innovative products since the last quarter in the calendar year of 2003 were the main reasons. The increase of accounts and bills receivable from 31st March, 2004 to 31st December, 2004 was mainly due to the typical peak season of the Group is normally during August to November. During the Track Record Period, the Group's normal credit term ranged from 14 to 90 days. According to the aging analysis of accounts receivables, approximately HK$1.3 million of those receivables remained outstanding for over 120 days as at 31st December, 2004, which accounted for approximately 3% of the total accounts and bills receivable balances. HK$0.3 million out of HK$1.3 million (representing approximately 23%) had been settled subsequently up to 28th February, 2005. These balances represented receivables from sales of spare parts, testing fee, and mould reimbursements, etc. The Directors considered such outstanding cases to be recoverable, taken into consideration the background and creditability of those customers and the Group long and well-established relationship with them.

Deposits, prepayment and other receivables

Other receivables as at 31st March, 2002, 2003, 2004 and 31st December, 2004 amounted to approximately HK$1.5 million, HK2.8 million, HK$4.2 million and HK$10.7 million respectively. The increase from HK$1.5 million to HK$2.8 million in the year ended 31st March, 2003 was mainly due to the increase in mould deposits paid to suppliers for the production of moulds. The increase to HK$4.2 million in the year ended 31st March, 2004 was mainly due to the increase in deposits for moulding, deposits for professional fees relating to application of land use right and deposits for land premium of another piece of land. The sharp increase from 31st March, 2004 to 31st December, 2004 was mainly due to the increase in deposits for moulding and the prepayment of professional expenses for the listing application of the Company.

Amount due from Directors

The amount due from Directors represented sums due from Mr. Lam WM and Mr. Tam. The amount due from Directors of approximately HK$39.0 million in 2003 and was fully settled in 2004 as a result of the distribution of dividends. Since 31st March, 2004, all amount due from Directors were settled through the distribution of dividends.

Amounts due from related companies

Amounts due from related companies mainly represented funds advances to and commissions receivable from related companies, which amounted to approximately HK$0.6 million, HK$17.8 million, HK$10.3 million and HK$13.5 million as at 31st March, 2002, 2003, 2004 and 31st December, 2004 respectively.

Cash and cash equivalents

Cash and cash equivalents as at 31st March, 2002, 2003, 2004 and 31st December, 2004 were approximately HK$12.7 million, HK23.2 million, HK$30.0 million and HK$135.3 million respectively.

Accounts and bills payable

Accounts and bills payable as at 31st March, 2002, 2003, 2004 and 31st December, 2004 were approximately HK$45.4 million, HK34.9 million, HK$38.0 million and HK$71.6 million, respectively. The decrease in accounts and bills payable from 31st March, 2002 to 31st March, 2003 was mainly due to the increase in trust receipt loans. The significant increase in accounts and bills payable from 31st March, 2004 to 31st December, 2004 was mainly due to the effective utilisation of supplier's credit terms, and the increase in purchasing activities to cater for the increase in customers' demand. In addition, several suppliers' payment terms had been extended during the nine months ended 31st December, 2004.

As at 31st December, 2004, accounts and bills payable remained outstanding for over 121 days amounted to approximately HK$6.1 million representing 8% of the total account and bills payable balances. HK$5.5 million out of HK$6.1 million (representing 90%) was settled subsequently up to 28th February, 2005.

Accruals and other payables

Accruals and other payables as at 31st March, 2002, 2003, 2004 and 31st December, 2004 were approximately HK$12.3 million, HK7.6 million, HK$12.1 million and HK$12.7 million respectively. The decline in accruals and other payables from 31st March, 2002 to 31st March, 2003 was mainly due to (i) the accrued expenses in the year 2002 relating to expenses incurred during the transitional period of factory relocation including the payables for the installation of electricity and other construction costs for the new factory in Dongguan; and (ii) significant unpaid fuel expenses in the year ended 31st March, 2002. The bounce back from 31st March, 2003 to 31st March, 2004 was mainly due to the increase in accruals, like wages (because of increase in number of workers working for the Group under the processing arrangement), professional fees, and repairs and maintenance (because of amounts incidentally unpaid at year end). The slight increase from 31st March, 2004 to 31st December, 2004 was mainly resulted from the net effect of an increase in temporary receipts for customer orders reduced by a decrease in wages accrual.

Amounts due to Directors

Amounts due to Directors represented mainly funds advanced from the Directors, which amounted to approximately HK$3.0 million as at 31st March, 2002.

Amount due to a related company

Amount due to a related company mainly represented wages and electricity recharge payable to a related company, which amounted to approximately HK$0.9 million as at 31st March, 2004.

Short-term and long-term borrowings

Short-term and long-term borrowings (including finance lease) amounted to approximately HK$73.9 million, HK$73.8 million, HK$73.0 million and HK$131.3 million as at 31st March, 2002, 2003, 2004 and 31st December, 2004 respectively. The significant increase in borrowings from 31st March, 2004 to 31st December, 2004 was mainly due to the increase in loans taken up for the funding of working capital as well as the increase in usage of trust receipt loans to cover the increase in demand for raw materials resulting from the increased sale, during the period.

Liquidity and funding

The Group has historically met its working capital and other capital requirements principally from cash generated from operations, long-term bank loans and short-term bank borrowings. As at 31st March, 2002, 2003, 2004 and 31st December, 2004, the Group had net current assets/(liabilities) of approximately HK$(1.2) million, HK$46.0 million, HK$(4.9) million and HK$41.4 million, respectively.

The Group transformed from a net current liabilities position of HK$1.2 million in 2002 to a current assets position of HK$46.0 million in 2003, which was due to significant increase in current assets resulted from the increase in commissions receivables, non-trade advances to related companies, further advances to directors, as well as the increase in cash generated from operating activities. The sharp decrease in 2004 to a net current liability position of HK$4.9 million was a result of the distribution of interim dividends during the year, which led to significant decrease in directors' current accounts. As at 31st December, 2004, the Group had maintained general banking facilities for an aggregate amount of approximately HK$195 million which comprised trade facilities with maximum credit limits of approximately HK$125.0 million and overdraft facilities and other short term loans with maximum credit limit of approximately HK$70 million. The following table summaries the Group's cash flow for each of the three years ended 31st March, 2004 and the nine months ended 31st December, 2004:–

	Year ended 31st March,			Nine months ended 31st December,
	2002	**2003**	**2004**	**2004**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Net cash generated from operating activities	36,005	11,058	39,894	74,173
Net cash used in investing activities	(12,196)	(4,836)	(5,456)	(8,770)
Net cash generated from/(used in) financing activities	(3,944)	2,719	(25,858)	39,838
Net increase in cash and cash equivalents	19,865	8,941	8,580	105,241
Cash and cash equivalents at the end of each year/period represented by:				
– Cash and bank balances	15,257	29,260	36,063	141,309
Less: Pledged deposits with banks	(2,561)	(6,084)	(6,043)	(6,048)
– Bank overdrafts	(197)	(1,736)	–	–

Operating activities

Net cash inflow from operating activities generally arose from operating results of the Group after adjustments for non-cash transactions, gain/(loss) on disposals of property, plant and machinery, subsidiaries and associates and the utilisation of working capital such as increase or decrease in current assets and current liabilities.

Investing activities

The net cash outflow of the Group for investing activities for each of the three years ended 31st March, 2004 and the nine months ended 31st December, 2004 amounted to approximately HK$12.2 million, HK$4.8 million, HK$5.5 million and HK$8.8 million respectively. The Group's cash outflow expenditure for investing activities primarily related to the purchase of fixed assets for the amounts of approximately HK$12.2 million, HK$2.5 million, HK$5.8 million and HK$8.8 million respectively for each of the three years ended 31st March, 2004 and the nine months ended 31st December, 2004.

Such fixed assets comprised mainly furniture, fixture and equipment, plant and machinery and moulds used for the Group's production activities.

Financing activities

Net cash outflow from financing activities amounted to approximately HK$3.9 million for the year ended 31st March, 2002 primarily as a result of the payment of further advances to directors in the amount of HK$7.7 million, repayment of finance lease liabilities of HK$1.6 million and the net repayment of trust receipt loans in the amount of HK$4.0 million which was partially offset by the net cash inflow from bank loans in the amount of HK$6.4 million and by an amount due to directors of HK$3.0 million.

Net cash inflow from financing activities amounted to approximately HK$2.7 million for the year ended 31st March, 2003, primarily generated from the net trust receipt loans of approximately HK$18.7 million, which was partially offset by the repayments for the long-term and short-term bank borrowings of approximately HK$3.3 million, advances to directors of HK$9.8 million and repayments of finance lease liabilities of HK$2.9 million.

Net cash outflow from financing activities amounted to approximately HK$25.9 million for the year ended 31st March, 2004 mainly resulted from further fund advances to directors in the amount of HK$23.6 million, repayment of bank loans in the amount of HK$5.9 million, repayments of finance lease liabilities in the amount of HK$1.3 million, and payment of dividends in the amount of HK$2.8 million, which was partially offset by cash received from trust receipt loans of HK$7.7 million.

For the nine months ended 31st December, 2004, there was a net cash inflow from financing activities amounting to approximately HK$39.8 million. The cash inflow was mainly generated from cash received from trust receipt loans of HK$45.5 million, and proceeds from bank loans of HK$13.8 million which was partially offset by the fund advanced to the directors of HK$17.6 million and repayments of finance lease liabilities of HK$1.9 million.

DIVIDENDS

For the year ended 31st March, 2003, Kenford declared interim dividends of approximately HK$2.8 million to its then shareholders. For the year ended 31st March, 2004, Kenford declared interim dividends of approximately HK$80.0 million and the payment of such dividends was settled through the directors' current accounts. In connection with the Reorganisation and in preparation for the Share Offer, the directors of Kenford declared dividends in favour of Mr. Lam WM and Mr. Tam, the then Shareholders of Kenford, in the respective amount of HK$10.0 million in December 2004 and HK$30.0 million in March 2005.

The above dividends cannot be construed as a reference or basis for the determination of future dividends. There is no assurance that future dividends will be paid in similar amounts or at all.

It is the present intention of the Directors that future interim and final dividends will be funded by internal resources and will be paid in or around January and September of each financial year. The declaration, payment and amount of dividends will be subject to the discretion of the Directors and will be dependent on the Company's earnings, financial positions, cash requirements and availability, provisions of the relevant laws and all other relevant factors.

However, it is the current intention of the Directors to pay out around 30% of the net profit attributable to shareholders of the Company whenever possible.

TAXATION

No provision for profit tax in the Cayman Islands or BVI has been made as the Group had no income assessable for profit tax in these jurisdictions during the Track Record Period. For each of the three years ended 31st March, 2004 and the nine months ended 31st December, 2004, the Group's assessable income was derived from Hong Kong and the PRC.

Hong Kong

Kenford

Under Section 14 of the Inland Revenue Ordinance ("IRO"), a company carrying on business in Hong Kong is subject to Hong Kong profits tax in respect of its profits arising in or derived from Hong Kong from such business. Pursuant to the Departmental Interpretation and Practice Notes No. 21 ("DIPN 21") issued by the Inland Revenue Department of Hong Kong (the "IRD"), the IRD is prepared to concede that, in cases where a Hong Kong manufacturing business enters into a processing arrangement with a PRC entity where the production processes are carried out at the processing factory situated in the PRC and the Hong Kong manufacturing business is heavily involved in the manufacturing activities in the PRC, profits from the sale of goods that were manufactured by such PRC entity can be apportioned on a 50:50 basis and 50% of the chargeable profits so apportioned can be treated as non-taxable in Hong Kong. The Directors consider that the Group's mode of manufacturing operations in Shenzhen and Dongguan are within the scope under DIPN 21 described above.

The IRD had in 1993 examined Kenford's 50:50 offshore claim in respect of the manufacturing profits derived under the Shenzhen Processing Arrangement by issuing a query letter to Kenford for the year of assessment 1991/92. Thereafter, no more query letter has been received from the IRD on the 50:50 offshore claim and Kenford's profits tax assessments have been issued up-to-date up to and including the year of assessment 2003/04 with the 50:50 claim accepted for all years. That is, all the assessments that had been issued by the IRD up to and including 2003/04 were in accordance with the Profits Tax Returns filed by Kenford which had lodged the 50:50 claim on all income of Kenford which is the manufacturing profits derived from the Shenzhen Processing Factory under the Shenzhen Processing Agreement and/or the DG Kenford Factory under the Dongguan Processing Agreement.

The DG Kenford Factory commenced its manufacturing operations in the year of assessment 2000/01. The financial statements as well as the tax computation of Kenford have disclosed both factories in Shenzhen and Dongguan and Kenford had lodged 50:50 claim on all its manufacturing profits which were derived from both factories. The DG Processing Agreement is also a typical processing arrangement commonly found in processing arrangement with a PRC entity. Under the Dongguan processing arrangement, the PRC entity is responsible for processing, manufacturing and assembling the goods and the provision of labour in return for a processing fee from Kenford. Kenford provides the raw materials, technical know-how, management, production skills, design, skilled labour, training and supervision to the China locally recruited labour and the manufacturing machinery and (although not expressed in the DG Processing Agreement) the manufacturing plant. Since the Dongguan processing arrangement operates in the same way as that prescribed (under paragraph 15) in DIPN 21 for determining the 50:50 claim in processing arrangement, the Directors consider that the manufacturing profits under the Dongguan processing arrangement qualifies for the 50:50 apportionment claim.

KARIO

KARIO was incorporated on 21st December, 2001 as a trading and investment holding company. Its first audited accounts covered the period from 21st December, 2001 (date of incorporation) to 31st March, 2003 which forms the tax basis period for the first year of assessment 2002/03. Since KARIO has no income for this period ended 31st March, 2003, its 2002/03 Return was filed with no assessable profits/no tax losses. Subsequent to the submission of the 2002/03 Profits Tax Return, the IRD had issued a letter (Form No. 1812) to KARIO on 25th February, 2004 to exempt KARIO temporarily from filing the annual Profits Tax Return. Hence, no Profits Tax Returns were issued by the IRD since then.

For the year of assessment 2003/04 with the basis period for the year ended 31st March, 2004, although KARIO has commenced to earn taxable trading income, it is still estimated to be in a tax loss position for the year of assessment 2003/04. Hence, the Directors considered that KARIO should not have any tax liability for 2003/04.

PRC

Pursuant to the Income Tax Law Enterprises With Foreign Investment And Foreign Enterprises (外商投資企業和外國企業所得稅法) and The Notice In Relation to the Meeting Minutes For Yangzi River Delta, Pearl River Delta and XiaZangQuan Delta Colloquium issued by the Central Committee of the PRC Communist Party and the State Council (中共中央國務院關於批轉長江,珠江三角洲和閩南廈漳泉三角地區座談會記要的通知), the applicable PRC foreign enterprise income tax before any tax relief is currently 24% at national level (applicable to Dongguan) which was waived from 2003 to 2004, and will be reduced in half from 2005 to 2007, plus 3% at local level (which was waived from 2003 to 2007 according to The Regulation Concerning Exemption and Reduction of Local Income Tax For Enterprises With Foreign Investment of Guangdong province (廣東省關於外商投資企業免徵減徵地方所得稅的規定, provided that DG KARIO will not cease its operations before the expiry of 10 years from 21st March, 2002), and the applicable VAT on the revenue of DG KARIO in the PRC is 17%.

On a strict interpretation of the PRC tax rules, manufacturing operation set up in the PRC under processing arrangements between Hong Kong manufacturer and PRC entity may be considered as constituting a tax permanent establishment of the Hong Kong company in the PRC and therefore the Hong Kong company may be subject to PRC foreign enterprise income tax. However, it has been a practice generally observed in the PRC that foreign enterprises (including a Hong Kong company) that conduct operations under processing arrangements are not treated as having tax permanent establishments in the PRC. The Directors confirm that they have not observed any changes in such concessional practice or in the way it taxes profits derived from this type of processing arrangement by the PRC tax authorities in the PRC.

The Directors are of the view that it is reasonable for the Group to follow the practice that a foreign enterprise conducting manufacturing operations in the PRC under a processing arrangement is not treated as having a tax permanent establishment in the PRC and so shall not be subject to PRC tax. Therefore, no provisions were made for the Group in respect of any PRC taxes during the Track Record Period.

If there is any change in the regulatory regime relating to the PRC taxation which affects the Group's tax exposure in the PRC, the Group's profitability may be adversely affected.

As far as the PRC tax aspect is concerned, to the best knowledge of the PRC legal advisor of the Company, the PRC legal advisor of the Company confirms that the Enlarged Group (to the extent of the Enlarged Group's PRC operation only including the operations through DG KARIO and the processing arrangement under the DG processing Agreement and any intra group transactions) have complied with all relevant PRC tax laws and regulation, and there is no material offense or violation thereof.

Effective tax rate

For each of the three years ended 31st March, 2004 and the nine months ended 31st December, 2004, the tax charged/(credited) to the Group was approximately HK$0.7 million, HK$(0.4) million, HK$4.1 million and HK$5.1 million respectively and the effective tax rate of the Group was approximately 8%, (1)%, 12% and 8% respectively. The fluctuations of the effective tax rate and the differences to the applicable 8% (for the two years ended 31st March, 2003) and 8.75% (for the year ended 31st March, 2004 and thereafter) statutory tax rate during the Track Record Period were mainly due to the difference between accounting profit and taxable profit, such as differences between depreciation allowances and depreciation charges, taxable receipt on disposal of fixed assets, non-taxable income and non-tax deductible expenses.

DISTRIBUTABLE RESERVES

As at 31st December, 2004, the Company had no reserves available for distribution to the Shareholders.

As stipulated by the Rules for the Implementation of the Law of the People's Republic of China on Foreign Capital Enterprises (中華人民共和國外資企業法實施細則), DG KARIO is required to provide appropriation of 10% of its profit after taxation each year as recorded in the PRC statutory accounts to the statutory reserve fund until the balance reaches 50% of the registered capital. The statutory reserve fund can only be used, upon approval by the relevant authority, for making up losses and for capitalization into capital.

PROPERTY INTERESTS

The head office of the Group is situated at Units 1106, 1107 and 1108 on the 11th Floor of Riley House, No. 88 Lei Muk Road, Kwai Chung, New Territories, Hong Kong. The total gross floor area of the head office of the Group is approximately 1,788.65 sq.m.

The industrial complex of DG Kenford Factory comprises a total 4 blocks of four to seven-storey buildings and a number of one to two-storey ancillary structures, all of which were completed in 1999. The industrial complex of DG Kenford Factory is owned by DG KARIO, a wholly foreign owned enterprise incorporated in the PRC which became a wholly-owned subsidiary of the Group on 23rd March, 2005. The total gross floor area of the industrial complex of DG Kenford Factory (excluding the ancillary structure thereof) is approximately 42,538.18 sq.m..

The industrial plant of DG KARIO comprises a single-storey industrial building and is leased by DG KARIO from an Independent Third Party for production use under a lease agreement for a term of three years from 1st October, 2002 to 30th September, 2005 at a rent of RMB10,000 per month. The gross floor area of the industrial building occupied by DG KARIO is approximately 900 sq.m.

The Group has also leased a parcel of collectively-owned land at Fenghuang Gang Village, Xixiang Town, Baoan District, Shenzhen with a site area of 1,300 sq.m., on which an industrial building with a gross floor area of 3,200 sq.m. was erected, for a term expiring on 25th March 2012 at a land use fee of RMB2 per month per sq.m.. The Group subsequently sub-let the property to an Independent Third Party in 2003 for a remaining term of approximately 9 years up to 25th March 2012 at a rental of RMB1,000,000 for the entire term.

The property interests of the Group have been valued at an aggregate amount of HK$58.8 million as at 28th February, 2005 by B.I. Appraisals Limited, an independent property valuer. The texts of a letter with a summary of values and valuation certificates of these property interests prepared by B.I. Appraisals Limited are set out in Appendix V to this prospectus.

The investment properties are situated in Hong Kong and are held by Union Nice Limited and Smart Host International Development Limited, the then subsidiaries which were disposed of by the Group in March 2003. The investment properties were revalued at 31st March 2001, 31st March 2002 and 31st March 2003 by B.I. Appraisals Limited, Registered Professional Surveyor, on the basis of open market value.

DG KARIO has paid 新增建設用地有償使用費 (newly-added construction land usage fee) of RMB204,480 (approximately HK$193,000) on 5th January, 2005 for the land use right of a piece of vacant land of about 6,390 sq.m. situated adjacent to the existing factory of DG KARIO. An official receipt from Changping branch of Dongguan Land Bureau has been obtained in this regard. Acquisition of this land use right could be subject to other fees including 土地出讓金 (land grant fee), 徵地管理費 (Land requisition management fee) and 登記費 (registration fee) as may be required by Dongguan Land Bureau (with an estimated total of around RMB300,000 (approximately HK$283,019)), which are intended to be settled by the internal resources of the Group. However, up to the Latest Practicable Date, the State land use right certificate for such piece of land has yet to be approved and granted by the relevant land authorities and, accordingly, DG KARIO does not have any legal right over such piece of land. The PRC legal adviser to the Company has advised that if (a) the relevant procedures relating to 新增建設用地 (newly-added construction land usage) shall have been processed and completed by the relevant PRC authorities, (b) Dongguan Land Bureau and DG KARIO shall have entered into the land use right grant agreement; and (c) DG KARIO shall have paid 土地出讓金 (land grant fee), 徵地管理費 (land requisition management fee), registration fee and such other related fees as required under the provisions of the land use right grant agreement and related requirements, there should be no legal impediment for DG KARIO to obtain the relevant land use right certificate. The Directors expect that such certificate could be approved around mid 2005. The Directors expect that as to approximately HK$29 million arising from the net proceeds of the Share Offer would be utilised for construction of a new plant for, and the acquisition of new machineries for, the factory proposed to be erected on such land.

PROFIT ESTIMATE FOR THE YEAR ENDED 31ST MARCH, 2005

Barring unforeseen circumstances, and based on the bases set out in Appendix IV to this prospectus, the Directors estimate that the combined profit after taxation and minority interests but before extraordinary items for the year ended 31st March, 2005 is estimated to be not less than HK$57 million. The Directors are not aware of any extraordinary items for the year ended 31st March, 2005.

On the basis of the above profit estimate and on the assumption that the Company had been listed since 1st April, 2004 and a total of 400,000,000 Shares were issued on 1st April, 2004, the unaudited pro forma estimated earnings per Share will be HK$0.143, representing an estimated price/earnings multiple on a pro forma basis of approximately 3.8 times.

UNAUDITED PRO FORMA ADJUSTED NET TANGIBLE ASSETS

The following statement of unaudited pro forma adjusted net tangible assets of the Group is based on the audited combined net tangible assets of the Group and the KARIO Group as at 31st December, 2004 as shown in the accountants' report and additional financial information of KARIO set out in Appendix I and II respectively, to this prospectus, adjusted as described below.

The unaudited pro forma adjusted net tangible assets has been prepared to illustrate the effect of the Capitalisation Issue and the Share Offer on the net tangible assets of the Group as at 31st December, 2004 as if it had taken place on 31st December, 2004. This unaudited pro forma adjusted net tangible assets has been prepared for illustrative purposes only and because of its nature, it may not give a true picture of the financial position of the Group.

	Audited combined net tangible assets of the Group as at 31st December, 2004	Audited net tangible liabilities of the KARIO Group as at 31st December, 2004	Elimination of unrealised profit on closing inventory	Estimated net proceeds from the Share Offer	Unaudited pro forma adjusted net tangible assets	Unaudited pro forma adjusted net tangible assets per Share
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$*
	(Note 1)	*(Note 2)*	*(Note 3)*	*(Note 4)*	*(Note 5)*	*(Note 5, 6)*
Based on an offer price of HK$0.55 per Share	108,089	(2,414)	(225)	34,000	139,450	0.35

Notes:

1. With reference to the valuation of the Group's property interest as set out in Appendix V to this prospectus, the aggregated revalued amount of property interests of the Group as at 28th February, 2005, was approximately HK$58,750,000. The unaudited net book value of these properties as at 28th February, 2005 was approximately HK$49,007,000. Thus, the net revaluation surplus is approximately HK$9,743,000, which has not been included in the above net tangible assets of the Group. The net revaluation surplus will not be recorded in the Group's financial statements as the Group accounts for its property interests at cost less

impairment and depreciation. The net surplus of HK$9,743,000 is represented by a gross revaluation surplus of HK$14,809,000 and a gross revaluation deficit of HK$5,066,000 on individual property interest basis. If the revaluation surplus is to be included in the Group's financial statements for the year ended 31st March, 2005, the depreciation charge of the Group would be increased by approximately HK$296,000 for the year ended 31st March, 2005. In respect of the property interest with revaluation deficit, the Directors consider that the value in use is higher than its unaudited net book value and no provision for impairment loss is required.

2. As the acquisition of the KARIO Group forms part of the Reorganisation for the purpose of listing, the Directors consider that it is relevant to include the net tangible liabilities of the KARIO Group as of 31st December, 2004 in the calculation of the net tangible assets of the Group as if the acquisition had taken place on 31st December, 2004. For the purpose of the unaudited pro forma adjusted net tangible assets, intercompany transactions with impacts on the net tangible assets were eliminated. The nature of which were described in note 3 below.

3. Elimination of unrealized profit on sale of goods from the KARIO Group to the Group.

4. The net proceeds from the Share Offer are estimated to be approximately HK$34 million after deduction of the underwriting fees and other related expenses payable by the Company in relation to the Share Offer. Please refer to the paragraph headed "Use of proceeds" in the section headed "Future plans and use of proceeds" to this prospectus for future use of net proceeds.

5. Subsequent to 31st December, 2004, on 22nd March, 2005, a subsidiary of the Company declared a special dividend of HK$30 million payable from the internal resources of the Group to the then shareholders of the subsidiary. Such a dividend has not been adjusted in the unaudited pro forma adjusted net tangible assets and the unaudited pro forma adjusted net tangible assets per Share. After taking into account the payment of the dividend, the unaudited pro forma adjusted net tangible assets and the unaudited pro forma adjusted net tangible assets per Share would have been decreased.

6. The unaudited pro forma adjusted net tangible assets per Share is arrived at based on 400,000,000 Shares expected to be in issue immediately following completion of the Capitalisation Issue and the Share Offer but taking no account of any Shares which may fall to be issued upon the exercise of any options which have been granted under the Pre-IPO Share Option Scheme or may be granted under the Share Option Scheme or any Shares which may fall to be allotted and issued upon the exercise of the subscription rights attaching to the Warrants or which may be allotted and issued or repurchased by the Company pursuant to the general mandates for the issue or repurchase of Shares granted to the Directors referred to in the paragraph headed "Written resolutions of all the Shareholders passed on 27th May, 2005" in Appendix VIII to this prospectus.

NO MATERIAL ADVERSE CHANGE

The Directors confirmed that there had been no material adverse change in the financial or trading position of the Group since 31st December, 2004, the date to which the latest audited financial statements of the Group were made up.

UNDERWRITERS

Placing Underwriters

Lead Manager

Partners Capital International Limited

Underwriters

Kim Eng Securities (Hong Kong) Limited
Partners Capital Securities Limited
Christfund Securities Limited
South China Securities Limited
Hong Tong Hai Securities Limited
G.K. Goh Securities (H.K.) Limited
Guotai Junan Securities (Hong Kong) Limited

Public Offer Underwriters

Lead Manager

Partners Capital International Limited

Underwriter

Partners Capital Securities Limited

UNDERWRITING ARRANGEMENTS AND EXPENSES

Underwriting agreement

Pursuant to the Underwriting Agreement, the Company is offering the Placing Shares (with Warrants) for subscription by way of Placing, on and subject to the terms and conditions of this prospectus at the Offer Price. The Company is also offering the Public Offer Shares (with Warrants) for subscription by members of the public in Hong Kong subject to the terms and conditions of this prospectus and the Application Forms at the Offer Price.

Subject to the Listing Committee granting the listing of and permission to deal in the Shares in issue and to be issued and the Warrants to be issued as mentioned in this prospectus and the Shares to be issued upon the exercise of the subscription right attaching to the Warrants and to certain other conditions as set out in the Underwriting Agreement, (i) the Placing Underwriters have severally agreed to procure placees to subscribe for, or failing which themselves to subscribe for, the Placing Shares subject to the terms and conditions of the Underwriting Agreement and the related placing documents; and (ii) the Public Underwriters have severally agreed to subscribe or procure subscribers, on the terms and conditions of this prospectus and the Application Forms, for their respective applicable proportions of the Public Offer Shares (with Warrants) initially being offered and which are not taken under the Public Offer.

Grounds for termination

The obligations of the Underwriters to subscribe or procure subscribers for the Offer Shares (with Warrants) under the Share Offer will be subject to termination by notice in writing from the Bookrunner and the Lead Manager (on behalf of the Underwriters) if any of the following events occur prior to 8:00 a.m. (Hong Kong time) on the Listing Date:

1. If there develops, occurs or comes into force:

   (i) any event, or series of events (including, without limitation, matters or circumstances concerning or relating to acts of government, strikes, lock-outs, fire, explosion, flood, civil commotion, acts of war or terrorism, acts of God, interruption or delay in transportation); or

   (ii) any change in local, national, international, financial, economic, political, military, industrial, fiscal, regulatory, market conditions or sentiments and matters and/or disasters (including any moratorium, suspension or restriction on trading in securities generally on the Stock Exchange) in Hong Kong, the PRC or any other relevant jurisdiction; or

   (iii) any new law or regulation or 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, or any other jurisdiction relevant to the Company; or

   (iv) a change or development occurs involving a prospective change in taxation or exchange control (or the implementation of any exchange control) in Hong Kong, the PRC, or any other relevant jurisdiction (including without limitation a change or development involving a prospective change in the exchange rate of Hong Kong Dollar or Renminbi to US Dollar or the system or practice under which the value of Hong Kong Dollar or Renminbi is linked to that of the US Dollar); or

(v) the imposition of economic sanctions, in whatever form, directly or indirectly, by, or for the US or by the European Union (or any member thereof) on the PRC; or

(vi) other than the Litigation, any litigation or claim of any third party being threatened or instigated against any member of the Group,

which will or may, in the reasonable opinion of the Bookrunner and the Lead Manager (on behalf of the Underwriters) after consultation with the other Underwriters and the Company, be materially adverse to or materially affect business, financial or other conditions or prospects of the Group and/or the Share Offer or the success thereof or which will or may have a substantial negative market impact or which makes it inadvisable or inexpedient to proceed with the Share Offer.

2. If there has come to the notice of the Bookrunner, the Lead Manager or any of the Underwriters, or the Bookrunner, the Lead Manager or any of the Underwriters has reasonable cause to believe:

(i) that any statement, considered by the Bookrunner and the Lead Manager in their sole and absolute opinion to be material, contained in this prospectus was when this prospectus was issued, or has become, untrue, incorrect or misleading in any respect; or

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

(iii) any breach of any of the obligations imposed upon any party to the Underwriting Agreement (other than on any of the Underwriters, Partners Capital, Sinopac and the Bookrunner); or

(iv) any adverse change in the business or in the financial or trading position of the Company which is material in the sole and absolute opinion of the Bookrunner and the Lead Manager (on behalf of the Underwriters) in the context of the Share Offer; or

(v) any event, act or omission which gives or is likely to give rise to any liability of any of the Company, the executive Directors and/or the Controlling Shareholders pursuant to the indemnities contained in the Underwriting Agreement; or

(vi) any breach, considered by the Bookrunner and the Lead Manager (on behalf of the Underwriters) in their sole and absolute opinion to be material, of the representations, warranties and undertakings given by the Company, or the executive Directors and/or the Controlling Shareholders contained in the Underwriting Agreement.

Undertakings

The Company has undertaken, and each of the executive Directors and Controlling Shareholders has jointly and severally undertaken to the Underwriters and the Sponsors to procure, except pursuant to the Share Offer and options granted under the Pre-IPO Share Option Scheme, the Share Option Scheme or Warrants, that the Company will not, and will procure that its subsidiaries not to within the first six months from the Listing Date, (a) allot, issue or agree to allot or issue any shares or any other securities, including warrants, convertibles or exchangeable securities or (b) grant or agree to grant any options or other right carrying any right to subscribe for or otherwise acquire any securities or (c) enter into any swap or other arrangements that transfer in whole or in part any of the economic consequence ownership of any securities or (d) offer to agree to do any of the foregoing or announce any intention to do so.

Pursuant to the Underwriting Agreement, each of the Controlling Shareholders has undertaken to the Company, the Underwriters, the Bookrunner and the Lead Manager and each of them that without the prior written consent of the Bookrunner and the Lead Manager (for themselves and on behalf of the Underwriters), each of the Controlling Shareholders shall not, and shall procure that the relevant registered holder(s) and such Controlling Shareholder's associates or companies controlled by it or any nominee or trustee holding in trust for it will not, at any time:-

(a) in a period commencing on the date of this prospectus and ending on a date which is 6 months from the Listing Date (the "**First Six-Month Period**"), (i) sell, transfer or otherwise dispose of, or enter into any agreements to dispose of or otherwise create any options, rights, interests or encumbrances in respect of any of those Shares and other securities directly owned by it or in which it is, directly or indirectly, interested as shown by this prospectus (for the avoidance of doubt, including without limitation the Shares to be issued pursuant to the Capitalisation Issue and the Warrants to be issued upon completion of the Share Offer and the Capitalisation Issue) (its "Controlling Shareholder's Securities") or (ii) enter into any transaction (including without limitation a swap or other derivative transaction) that transfers in whole or in part any of the economic consequences of ownership of the Controlling Shareholder's Securities or (iii) dispose of or agree to dispose of any interest in any shares in any company controlled by it which is the beneficial owner of any of its Controlling Shareholder's Securities; and

(b) in the period of 6 months immediately after the expiry of the First Six-Month Period (the "**Second Six-Month Period**"), sell, transfer or otherwise dispose of or enter into any agreement to dispose of or otherwise create any options, rights, interests or encumbrances in respect of any of its Controlling Shareholder's Securities or dispose of or agree to dispose of any interest in any shares in any company controlled by it which is the beneficial owner of any of its Controlling Shareholder's Securities if immediately following such disposal or upon the exercise or enforcement of such options, rights, interests or encumbrances, the Controlling Shareholders would cease to be a controlling shareholder for the purposes of the Listing Rules.

In addition, Mr. Chan, being one of the executive Directors, has undertaken to the Company, the Underwriters, the Bookrunner and the Lead Manager and each of them that without the prior written consent of the Bookrunner and the Lead Manager (for themselves and on behalf of the Underwriters), he shall not, and shall procure that the relevant registered holder(s) and his associates or companies controlled by him or any nominee or trustee holding in trust for him will not, at any time:–

(a) in the First Six-Month Period, (i) sell, transfer or otherwise dispose of, or enter into any agreements to dispose of or otherwise create any options, rights, interests or encumbrances in respect of any of those Shares and other securities directly owned by him or in which he is, directly or indirectly, interested as shown by this prospectus (for the avoidance of doubt, including without limitation the Shares to be issued pursuant to the Capitalisation Issue and the Warrants to be issued upon completion of the Share Offer and the Capitalisation Issue) (the "Director's Securities") or (ii) enter into any transaction (including without limitation a swap or other derivative transaction) that transfers in whole or in part any of the economic consequences of ownership of the Director's Securities or (iii) dispose of or agree to dispose of any interest in any shares in any company controlled by him which is the beneficial owner of any of the Director's Securities; and

(b) in the Second Six-Month Period, sell, transfer or otherwise dispose of or enter into any agreement to dispose of or otherwise create any options, rights, interests or encumbrances in respect of any of the Director's Securities or dispose of or agree to dispose of any interest in any shares in any company controlled by him which is the beneficial owner of any of the Director's Securities if, immediately following such disposal or upon the exercise or enforcement of such options, rights, interests or encumbrances, he would cease to own or to be interested in 30% or more of any class of the Director's Securities.

Commission and expenses

The Underwriters will receive a commission of 2.5% of the aggregate Offer Price of all the Shares under the Share Offer, out of which they will pay any sub-underwriting commission, and the Sponsors will in addition receive a financial advisory fee and a documentation fee in relation to the Share Offer. Such fees and commission, together with the listing fees, brokerage, the Stock Exchange trading fee, SFC transaction levy and investor compensation levy, legal and other professional fees, printing and other expenses relating to the Share Offer are estimated to be approximately HK$21 million.

Underwriters' interest in the Company

Save for its obligations under the Underwriting Agreement, none of the Underwriters have any shareholding interests in the Group nor has any right or option (whether legally enforceable or not) to subscribe for or nominate persons to subscribe for any shares in any member of the Group.

Partners Capital, being one of the underwriters to the Share Offer, has been appointed as the compliance adviser of the Company and will receive normal professional fees in connection with the advisory services to be provided to the Company for the period commencing on the Listing Date and ending on the date on which the Company complies with Rule 13.46 of the Listing Rules in respect of its financial results for the financial year ending 31st March, 2007 pursuant to the agreement of compliance adviser dated 11th May, 2005 (as amended) entered into between the Company and Partners Capital.

PRICE PAYABLE ON APPLICATION

Applicants for the Public Offer Shares (with Warrants) should pay on application the Offer Price of HK$0.55 per Offer Share (with Warrants) plus a 1% brokerage, a 0.005% transaction levy and a 0.002% investor compensation levy imposed by SFC and a 0.005% Stock Exchange trading fee, amounting to a total of HK$2,222.26 for each board lot of 4,000 Shares.

SHARE OFFER

The Share Offer comprises the Placing and the Public Offer. A total of 90,000,000 Shares (with Warrants), representing 90% of the total number of the Offer Shares (with Warrants), will be initially offered under the Placing to professional, institution and/or other investors, which are anticipated to have a sizeable demand for such Shares. A total of 10,000,000 Shares (with Warrants), representing 10% of the total number of the Offer Shares (with Warrants), will be initially offered under the Public Offer to members of the public in Hong Kong.

Investors may apply for the Offer Shares (with Warrants) under the Public Offer or indicate an interest for the Offer Shares (with Warrants) under the Placing, but may not do both. The Bookrunner and the Lead Manager (on behalf of the Underwriters) will take all reasonable steps to identify any multiple applications under the Public Offer and the Placing which are not allowed and are bound to be rejected.

The Public Offer Shares (with Warrants) and the Placing Shares (with Warrants) are fully underwritten by the Underwriters subject to conditions set forth under the paragraph headed "Underwriting Agreement" in the section headed "Underwriting" in this prospectus.

References in this prospectus as to applications, Application Forms, application money or to the procedure for application relate solely to the Public Offer.

Public Offer

The Company is initially offering 10,000,000 Shares (with Warrants) under the Public Offer. The Public Offer Shares (with Warrants) represent approximately 10% of the total number of Offer Shares (with Warrants) available under the Share Offer. The Public Offer is subject to reallocation as mentioned in this section. The levels of application for the Public Offer Shares (with Warrants) will be announced in The Standard (in English) and the Hong Kong Economic Times (in Chinese) on or before Monday, 13th June, 2005.

The Public Offer is open to all members of the public in Hong Kong. The Public Offer will be subject to the conditions stated in the paragraph headed "Conditions of the Share Offer" in this section below.

The Public Offer is fully underwritten by the Public Offer Underwriters subject to terms and conditions of the Underwriting Agreement. Applicants under the Public Offer are required to pay on application the Offer Price of HK$0.55 per Offer Share (with Warrants), together with brokerage of 1%, SFC transaction levy and investor compensation levy of 0.005% and 0.002% respectively and Stock Exchange trading fee of 0.005% thereon.

The Public Offer Shares (with Warrants) will be allocated on an equitable basis to applicants who have applied for the Public Offer Shares (with Warrants). When there is a full or over subscription of Public Offer Shares (with Warrants), allocation of Public Offer Shares (with Warrants) will be solely based on the level of valid applications received. The basis of allocation may vary, depending on the number of Public Offer Shares (with Warrants) validly applied for by each applicants, but will otherwise be made on a strictly pro rata basis. However, this may involve balloting, which would mean that some applicants may be allocated more Public Offer Shares (with Warrants) than others who have applied for the same number of Public Offer Shares (with Warrants) and that applicants who are not successful in the balloting may not receive any Public Offer Shares (with Warrants).

Placing

The Company is initially offering 90,000,000 Shares (with Warrants) for subscription at the Offer Price by way of the Placing. The Placing Shares (with Warrants) represent approximately 90% of the total number of Offer Shares (with Warrants) available under the Share Offer. The Placing is subject to reallocation as mentioned in this section. The Placing is fully underwritten by the Placing Underwriters subject to terms and conditions of the Underwriting Agreement.

Investors purchasing the Placing Shares (with Warrants) are also required to pay a brokerage of 1%, a SFC transaction levy of 0.005%, an investor compensation levy of 0.002% and a Stock Exchange trading fee of 0.005% of the Offer Price.

All decisions concerning the allocation of the Placing Shares (with Warrants) to prospective placees pursuant to the Placing will be made on the basis of and by reference to a number of factors including the level and timing of demand, the total size of the relevant investor's invested assets or equity assets in the relevant sector and whether or not it is expected that the relevant investor is likely to buy further Shares, and/or hold or sell its Offer Shares (with Warrants), following the commencement of dealings in the Shares and the Warrants on the Main Board. Such allocation is intended to result in a distribution of the Placing Shares (with Warrants) on a basis which would lead to the establishment of a solid institutional, professional and individual shareholder base to the benefit of the Company and its Shareholders as a whole. In addition, the Directors and the Sponsors will use their best endeavours to observe the minimum public float requirement under the Listing Rules when making allocations of the Placing Shares to investors who are anticipated to have a sizeable demand for such Shares.

REALLOCATION

The number of Offer Shares (with Warrants) under the Public Offer and the Placing is subject to reallocation on the following basis:

(a) if the number of Shares (with Warrants) validly applied for under the Public Offer exceeds 150,000,000 Shares (with Warrants) (being 15 times the number of Public Offer Shares (with Warrants) initially available for subscription under the Public Offer) but is not more than 500,000,000 Shares (with Warrants), then the number of Shares (with Warrants) to be reallocated for subscription under the Public Offer from the Placing will be 20,000,000 Shares (with Warrants) so that a total of 30,000,000 Shares (with Warrants) will be available under the Public Offer, representing 30% of the Offer Shares (with Warrants) available under the Share Offer; and

(b) if the number of Shares validly applied for under the Public Offer exceeds 500,000,000 Shares (with Warrants) (being 50 times the number of Public Offer Shares (with Warrants) initially available for subscription under the Public Offer) but is not more than 1,000,000,000 Shares (with Warrants), then the number of Shares to be reallocated for subscription under the Public Offer from the Placing will be 30,000,000 Shares (with Warrants) so that a total of 40,000,000 Shares (with Warrants) will be available under the Public Offer, representing 40% of the Offer Shares (with Warrants) available under the Share Offer; and

(c) if the number of Shares validly applied for under the Public Offer exceeds 1,000,000,000 Shares (with Warrants) (being 100 times the number of Public Offer Shares (with Warrants) initially available for subscription under the Public Offer), then the number of Shares to be reallocated for subscription under the Public Offer from the Placing will be 40,000,000 Shares (with Warrants) so that a total of 50,000,000 (with Warrants) Shares will be available under the Public Offer, representing 50% of the Offer Shares (with Warrants) available under the Share Offer.

In addition, the Bookrunner and the Lead Manager will have an absolute discretion to reallocate such Placing Shares (with Warrants) as they consider appropriate to the Public Offer if the Public Offer is over-subscribed.

In the event of a reallocation of Shares from the Placing to the Public Offer, the allocations to placees under the Placing will be reduced accordingly.

In addition, if the Public Offer Shares (with Warrants) are not fully subscribed under the Public Offer, the Bookrunner and the Lead Manager may, in their absolute discretion, reallocate to the Placing all or any unsubscribed Public Offer Shares (with Warrants) in such number and manner as they may consider appropriate to satisfy demand under the Placing.

CONDITIONS OF THE SHARE OFFER

Acceptance of your applications for Offer Shares (with Warrants) is conditional upon:

(a) Listing

the Listing Committee granting listing of, and permission to deal in, the Shares in issue and to be issued under the Share Offer and the Capitalisation Issue and upon the exercise of any options which have been granted under the Pre-IPO Share Option Scheme or may be granted under the Share Option Scheme, the Warrants to be issued and the new Shares which may fall to be issued upon the exercise of the subscription rights attaching to the Warrants as mentioned in this prospectus and the Application Forms; and

(b) Underwriting Agreement

the obligations of the Underwriters under the Underwriting Agreement becoming unconditional (including, if relevant, as a result of the waiver of any condition(s) by the Bookrunner and the Lead Manager (on behalf of the Underwriters) and not being terminated in accordance with the terms of the Underwriting Agreement or otherwise prior to 8:00 a.m. on the Listing Date). Details of the Underwriting Agreement, its conditions and grounds for termination, are set out in the paragraph headed "Underwriting arrangements and expenses".

If the conditions referred to above are not fulfilled on or before the 30th day from the date of this prospectus, your application money will be returned to you, without interest. The terms on which your application money will be returned to you are set out under the heading "Refund of your application money" on the Application Forms and the section headed "How to apply for the Public Offer Shares (with Warrants) in this prospectus.

In the meantime, your application money will be held in one or more separate bank accounts with the receiving banker or other bank(s) licensed under the Banking Ordinance (Chapter 155 of the laws of Hong Kong).

Subject to the granting of the listing of, and permission to deal in, on the Main Board, the Shares in issue and to be issued under the Share offer and the Capitalisation Issue and upon the exercise of any options which have been granted under the Pre-IPO Share Option Scheme or may be granted under the Share Option Scheme, the Warrants to be issued and the new Shares which may fall to be issued upon the exercise of the subscription rights attaching to the Warrants as well as the compliance with the stock admission requirements of HKSCC, the Shares, the Warrants and the new Shares which fall to be issued upon the exercise of the subscription rights attaching to the Warrants will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the Listing Date or such other date as determined by HKSCC.

DEALINGS IN THE SHARES AND WARRANTS ON THE MAIN BOARD

Assuming the Share Offer becomes unconditional, it is expected that dealings in the Shares and the Warrants on the Main Board will commence at 9:30 a.m. on Thursday, 16th June, 2005.

WHICH APPLICATION FORM TO USE

Use a **WHITE** Application Form if you want the Public Offer Shares (with Warrants) to be issued in your own name.

Use a **YELLOW** Application Form if you want the Public Offer Shares (with Warrants) to be issued in the name of HKSCC Nominees Limited and deposited directly into CCASS for credit to your investor participant stock account or the stock account of your designated CCASS participant.

Note: The Public Offer Shares (with Warrants) are not available to any existing beneficial owner of the Shares, the Directors, the Controlling Shareholders, the Substantial Shareholders or associates of any of them.

WHERE TO COLLECT THE APPLICATION FORMS

You can collect a **WHITE** Application Form and a prospectus from:

Any participant of the Stock Exchange, or any of the following firms

Partners Capital International Limited
Room 1305, 13th Floor
9 Queen's Road Central
Hong Kong

SinoPac Securities (Asia) Limited
23rd Floor, Two International Finance Centre
8 Finance Street
Central
Hong Kong

Partners Capital Securities Limited
Room 1303, 13th Floor
9 Queen's Road Central
Hong Kong

Kim Eng Securities (Hong Kong) Limited
Room 1901, Bank of America Tower
12 Harcount Road
Central
Hong Kong

Christfund Securities Limited
Suites 1907-1909, Two International Finance Center
8 Finance Street
Central
Hong Kong

South China Securities Limited
28/F., Bank of China Tower
No. 1 Garden Road
Central
Hong Kong

Hong Tong Hai Securities Limited
5/F. & Units 1702-3
Skyline Commercial Centre
71-77 Wing Lok Street
Sheung Wan
Hong Kong

G.K. Goh Securities (H.K.) Limited
Suite 1808, Alexandra House
16-20 Chater Road
Central
Hong Kong

Guotai Junan Securities (Hong Kong) Limited
27/F., Low Block
Grand Millennium Plaza
181 Queen's Road Central
Hong Kong

or any of the following branches of Hang Seng Bank Limited:

Hong Kong Island:

Head Office	83 Des Voeux Road Central
Central District Branch	Basement, Central Building, Pedder Street
Causeway Bay Branch	28 Yee Wo Street
Wanchai Branch	200 Hennessy Road

Kowloon:

Kowloon Main Branch	618 Nathan Road
Tsimshatsui Branch	18 Carnarvon Road
Kwun Tong Branch	70 Yue Man Square
Mongkok Branch	677 Nathan Road

New Territories:

Tsuen Wan Branch	289 Sha Tsui Road, Tsuen Wan
Shatin Branch	Shop 18 Lucky Plaza, Wang Pok Street, Shatin

You can collect a **YELLOW** Application Form and a prospectus during normal business hours from 9:00 a.m. on 31st May, 2005 until 12:00 noon on 6th June, 2005 from:

Hong Kong Securities Clearing Company Limited
Depository Counter
2nd Floor, Vicwood Plaza
199 Des Voeux Road Central
Hong Kong

Hong Kong Securities Clearing Company Limited
Customer Service Centre
Upper Ground Floor
V-Heun Building
128-140 Queen's Road Central
Hong Kong

or your stockbroker may have forms available.

HOW TO COMPLETE THE APPLICATION FORMS

There are detailed instructions on each Application Form. You should read these instructions carefully. If you do not follow the instructions, your application may be rejected.

If your application is made through a duly authorised attorney, the Bookrunner and the Lead Manager (on behalf of the Underwriters), in consultation with the Company, as agents of the Company may accept it at their discretion, and subject to any conditions they think fit, including evidence of the authority of your attorney. The Bookrunner and the Lead Manager (on behalf of the Underwriters), in consultation with the Company, in their capacity as agents of the Company have full discretion to reject or accept any application, in full or in part, without assigning any reason.

HOW MANY APPLICATIONS MAY YOU MAKE

There is only one situation where you may make more than one application for Public Offer Shares (with Warrants):

If you are a nominee, you may lodge more than one application in your own name on behalf of different beneficial owners. In the box on the Application Form marked "For nominees'', you must include

(i) an account number; or

(ii) some other identification code

for **each** beneficial owner. If you do not include this information, the application will be treated as being made for your benefit.

Otherwise, multiple applications are not allowed.

It will be a term and condition of all applications that by completing and delivering an Application Form, you give a warranty to the following effect that:

- no other application is made for your benefit by you or by anyone applying as your agent or by any other person, if the application is made for your benefit; and

- if the application is made by you as agent for the benefit of another person, no other application is being made by you as agent for or for the benefit of that person or by that person or by other person as agent for that person; and you have due authority to sign the application as agent for the application as agent for the person who is to benefit from the application.

All of your application will be rejected as multiple applications if you, or you and joint applicants together:

- make more than one application on a **WHITE** or **YELLOW** Application Form; or
- apply on one **WHITE** or **YELLOW** Application Form for more than 100% of the Public Offer Shares (with Warrants) as referred to in the paragraph headed "Public Offer" under the section headed "Structure of the Share Offer" in this prospectus; or
- apply for, take up, indicate an interest for any Placing Shares or otherwise participate in the Placing.

All of your applications will also be rejected as multiple applications if more than one application is made for your benefit. If an application is made by an **unlisted company** and

- the principal business of that company is dealing in securities; and
- you exercise **statutory control** over that company,

then the application will be treated as being for your benefit.

Unlisted company means a company with no equity securities listed on the Stock Exchange.

Statutory control means you:

- control the composition of the board of directors of that company; or
- control more than half the voting power of that company; or
- hold more than half the issued share capital of that company (not counting any part of it which carries no right to participate beyond a specified amount in a distribution of either profits or capital).

HOW MUCH FOR THE PUBLIC OFFER SHARES (WITH WARRANTS)

You must pay the Offer Price of HK$0.55 per Offer Share (with Warrants) together with the brokerage of 1%, a SFC transaction levy of 0.005% and investor compensation levy of 0.002% and a Stock Exchange trading fee of 0.005% on application. This means that for every 4,000 Shares (with Warrants) you will pay HK$2,222.26. The Application Forms have tables showing the exact amount payable for multiples of Shares (with Warrants).

Your payment must be by cheque or banker's cashier order made payable to "Hang Seng (Nominee) Limited – Kenford Public Offer" and must comply with the terms of the Application Forms. Your cheque or banker's cashier order will not be presented for payment before 12:00 noon on Monday, 6th June, 2005.

If your application is successful, brokerage is paid to participants of the Stock Exchange, the transaction levy and the investor compensation levy are paid to the SFC and the trading fee is paid to the Stock Exchange.

TIME FOR APPLICATION OF PUBLIC OFFER SHARES (WITH WARRANTS)

Completed **WHITE** or **YELLOW** Application Forms, with payment in Hong Kong Dollars for the full amount payable on application attached, must be lodged by 12:00 noon on Monday, 6th June, 2005 or if the application lists are not open on that day, then by 12:00 noon on the next day the lists are open.

Your completed Application Form, with payment in Hong Kong Dollars for the full amount payable on application attached, should be deposited in the special collection boxes provided at any of the branches of Hang Seng Bank Limited listed under the paragraph headed "Where to collect the application forms" above at the following times:

Tuesday, 31st May, 2005	**–**	**9:00 a.m. to 4:00 p.m.**
Wednesday, 1st June, 2005	**–**	**9:00 a.m. to 4:00 p.m.**
Thursday, 2nd June, 2005	**–**	**9:00 a.m. to 4:00 p.m.**
Friday, 3rd June, 2005	**–**	**9:00 a.m. to 4:00 p.m.**
Saturday, 4th June, 2005	**–**	**9:00 a.m. to 12:00 noon**
Monday, 6th June, 2005	**–**	**9:00 a.m. to 12:00 noon**

The application lists will be open from **11:45 a.m.** to **12:00 noon** on **Monday, 6th June, 2005**.

EFFECT OF BAD WEATHER ON THE OPENING OF THE APPLICATION LISTS

The application lists will not open if there is:

- a tropical cyclone warning signal number 8 or above, or
- a "black" rainstorm warning signal

in force in Hong Kong at any time between 9:00 a.m. and 12:00 noon on Monday, 6th June, 2005. Instead they will open between 11:45 a.m. and 12:00 noon on the next **business day** which does not have either of those warnings in force in Hong Kong at any time between 9:00 a.m. and 12:00 noon.

Business day means a day that is not a Saturday, Sunday or public holiday in Hong Kong.

CIRCUMSTANCES IN WHICH YOU WILL NOT BE ALLOTTED PUBLIC OFFER SHARES (WITH WARRANTS)

Full details of the circumstances in which you will not be allotted Public Offer Shares (with Warrants) are set out in the notes attached to the Application Forms, and you should read them carefully. You should note in particular the following two situations in which Public Offer Shares (with Warrants) will not be allotted to you:

- **If your application is revoked:**

  By completing and submitting an Application Form, you agree that you may not revoke your application before the expiration of the fifth day after the time of the opening of the application lists (excluding for this purpose any day which is a Saturday, Sunday or public holiday in Hong Kong) unless a person responsible for this prospectus under section 40 of the Companies Ordinance gives a public notice under that section which excludes or limits the responsibility of that person for this prospectus before the expiration of that fifth day.

  If your application has been accepted, it cannot be revoked. Acceptance of application will be constituted by notification in the announcement of the results of allocation and, where such basis of allocation is subject to certain conditions or provides for allocation by ballot, such acceptance will be subject to satisfaction of such conditions or the results of such ballot, respectively.

- **If the allotment of Public Offer Shares (with Warrants) is void:**

  Your allotment of Public Offer Shares (with Warrants) will be void if the Listing Committee of the Stock Exchange does not grant the listing of, and permission to deal in, the Shares and the Warrants either:

  - within three weeks from the closing of the application lists of the Public Offer; or

  - within a longer period of up to six weeks if the Listing Committee of the Stock Exchange notifies the Company of that longer period within three weeks of the closing of the application lists of the Public Offer.

PUBLICATION OF RESULTS

The Company expects to release an announcement on the level of indication of interests in the Placing, the results of applications and basis of allocation of the Public Offer, the number of Offer Shares (with Warrants), if any, reallocated between the Placing and the Public Offer and the Hong Kong Identity Card number/passport number/Hong Kong business registration certificate number of successful applicants on or before Monday, 13th June, 2005 in The Standard (in English) and the Hong Kong Economic Times (in Chinese) and on the website of the Stock Exchange.

COMMENCEMENT OF DEALINGS IN THE SHARES AND THE WARRANTS ON THE MAIN BOARD

Dealings in the Shares and the Warrants are expected to commence on Thursday, 16th June, 2005.

Shares will be traded in board lots of 4,000 Shares and Warrants will be traded in board lots of 20,000 Warrants.

COLLECTION/POSTING OF SHARE CERTIFICATE(S)/WARRANT CERTIFICATE(S)/ REFUND CHEQUE AND DEPOSIT OF CERTIFICATES INTO CCASS

WHITE Application Form:

If you have applied for 1,000,000 Public Offer Shares (with Warrants) or more and have indicated on your Application Form that you will collect Share certificate(s), Warrant certificate(s) and/or refund cheque(s), you may collect it/them in person from:

Computershare Hong Kong Investor Services Limited,
Shops 1712-1716, 17th Floor, Hopewell Centre,
183 Queen's Road East, Wanchai, Hong Kong

Share certificate(s), Warrant certificate(s) and refund cheque(s) will be available for collection between 9:00 a.m. and 1:00 p.m. on Monday, 13th June, 2005.

You must show your identification document to collect your Share certificate(s), Warrant certificate(s) and/or refund cheque(s).

Applicants being individuals who opt for personal collection must not authorise any other person to make collection on their behalf. Applicants being corporations who opt for personal collection must attend by their authorised representatives bearing a letter of authorisation from their corporations stamped with the corporations' chops. Both individuals and authorised representatives (if applicable) must produce, at the time of collection, evidence of identity acceptable to Computershare Hong Kong Investor Services Limited.

If you do not collect your Share certificate(s), Warrant certificate(s) and/or refund cheque(s), if any, within the time specified for collection as mentioned above they will be sent to the address on your Application Form shortly after the time for personal collection by ordinary post and at your own risk.

If you have applied for 1,000,000 Public Offer Shares (with Warrants) or above and have not indicated on your application form that you will collect your Share certificate(s), Warrant certificate(s) and/or refund cheque(s) in person, or if you have applied for less than 1,000,000 Public Offer Shares (with Warrants), then your Share certificate(s), Warrant certificate(s) and/or refund cheque(s), if any, will be sent to the address on your application form by ordinary post and at your own risk on the date of despatch.

YELLOW Application Form:

Your Share certificate(s) and Warrant certificate(s) will be issued in the name of HKSCC Nominees Limited and deposited into CCASS for credit to your investor participant stock account or the stock account of your designated CCASS participant as instructed by you in the Application Form at the close of business on Monday, 13th June, 2005, or any other date as shall be determined by HKSCC or HKSCC Nominees Limited.

If you are applying through a designated CCASS participant (other than an investor participant) for Public Offer Shares (with Warrants) credited to the stock account of your designated CCASS participant (other than an investor participant), you can check the number of Public Offer Shares (with Warrants) allotted to you with that CCASS participant.

If you are applying as an investor participant, the Company will publish the results of investor participants' applications together with the results of the Share Offer in the newspapers on Monday, 13th June, 2005. You should check the announcement published by the Company and report any discrepancies to HKSCC before 5:00 p.m. on Monday, 13th June, 2005 or such other date as shall be determined by HKSCC or HKSCC Nominees Limited. Immediately after the credit of the Public Offer Shares (with Warrants) to your stock account, you can check your new account balance via the CCASS Phone System or the CCASS Internet System (under the procedures contained in HKSCC's "An Operating Guide for Investor Participants" in effect from time to time). HKSCC will also make available to you an activity statement showing the number of Public Offer Shares (with Warrants) credited to your stock account.

If you have indicated on your application form that you will collect your refund cheque(s) in person, please follow the instructions set out under the paragraph headed "**WHITE** Application Form" above.

Refund of your application money

If you do not receive any Public Offer Shares (with Warrants) for any of, but not limited to, the reasons set out in the above paragraph headed "Circumstances in which you will not be allocated Public Offer Shares (with Warrants)", the Company will refund your application money together with brokerage, SFC transaction levy, SFC investor compensation levy and Stock Exchange trading fee to you without interest. If your application is accepted only in part, the Company will refund the appropriate portion of your application money, brokerage, SFC transaction levy, SFC investor compensation levy and Stock Exchange trading fee to you, without interest. All such interest accrued prior to the date of despatch of refund cheques will be retained for the benefit of the Company.

All refunds will be made by cheque(s) crossed "Account Payee Only", made out to you, or, if you are joint applicants, to the first-named applicant on your application form. Part of your Hong Kong Identity Card number/passport number or, if you are joint applicants, part of the Hong Kong Identity Card number/passport number of the first-named applicant, provided by you may be printed on your refund cheque(s), if any. Such data would also be transferred to a third party for refund purpose. Your banker may require verification of your Hong Kong Identity Card number/passport number before encashment of your refund cheque(s). Inaccurate completion of your Hong Kong Identity Card number/passport number in the application form may lead to delay in encashment of or may invalidate your refund cheque(s).

Share certificates and warrant certificates for the Offer Shares and the Warrants will only become valid certificates of title provided that (i) the Share Offer has become unconditional in all respects; and (ii) the Underwriting Agreement has not been terminated in accordance with its terms, which is expected to be at 8:00 a.m. (Hong Kong time) on Thursday, 16th June, 2005, as further described in the section headed "Underwriting" in this prospectus.

SHARES AND WARRANTS WILL BE ELIGIBLE FOR ADMISSION INTO CCASS

If the Stock Exchange grants the listing of and permission to deal in the Shares in issue and to be issued and the Warrants to be issued as mentioned in this prospectus and the Company complies with the stock admission requirements of HKSCC, the Shares and the Warrants 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 necessary arrangements have been made for the Shares and the Warrants to be admitted into CCASS.

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

Investors should seek the advice of their stockbroker or other professional adviser for details of those settlement arrangements and how such arrangements will affect their rights and interests.

The following is the text of a report, prepared for the purpose of incorporation in this prospectus, received from the joint reporting accountants of the Company, BDO McCabe Lo & Company and PCP CPA Limited, Certified Public Accountants, Hong Kong.

BDO McCabe Lo & Company
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PCP CPA Limited
華德匡成會計師事務所有限公司
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31st May, 2005

The Directors
Kenford Group Holdings Limited
Partners Capital International Limited
SinoPac Securities (Asia) Limited

Dear Sirs,

We set out below our report on the financial information relating to Kenford Group Holdings Limited (the "Company") and its subsidiaries for each of the three years ended 31st March, 2002, 2003, 2004 and the nine months ended 31st December, 2004 (the "Relevant Audited Periods") together with the nine months ended 31st December, 2003 (collectively the "Relevant Periods") for inclusion in the prospectus of the Company dated 31st May, 2005 (the "Prospectus").

The Company was incorporated in the Cayman Islands on 10th November, 2004 as an exempted company with limited liability under the Companies Law of the Cayman Islands. Pursuant to a transfer of companies set out below through an exchange of shares with Beaute Inc., as detailed in the section headed "Corporate reorganisation" in Appendix VIII to the Prospectus ("Exchange of Shares"), which was completed on 23rd March, 2005, the Company became the holding company of the companies set out below.

Name of company	Country/place and date of incorporation	Issued/ paid-up capital	Equity interests attributable to the Company Directly	Indirectly	Principal activities
Asia Pilot Development Limited ("Asia Pilot")	BVI 21st July, 2004	US$1	100%		Investment holding
Kenford Industrial Company., Limited ("Kenford HK")	Hong Kong 28th September, 1984	HK$1,000,000		100%	Manufacturing and selling of electrical household appliances
Sky Ocean Group Limited ("Sky Ocean")	BVI 5th August, 2004	US$1		100%	Investment holding

The following companies have not been included as they were either deregistered or disposed of during the Relevant Audited Periods:

Name of company	Country/ place and date of incorporation	Issued/ paid-up capital	Equity interests attributable to Kenford HK	Principal activities
Union Nice Limited ("Union Nice")	Hong Kong 13th December, 1996	HK$2	100% *(Note 1)*	Property investment
Smart Host International Development Limited ("Smart Host")	Hong Kong 13th December, 1996	HK$2	100% *(Note 1)*	Property investment
Wise Pride Investments Limited ("Wise Pride")	Hong Kong 17th August, 1993	HK$2	100% *(Note 2)*	Dormant
Unix Electronics (HK) Company Limited ("Unix HK")	Hong Kong 6th September, 2000	HK$2,000,000	50% *(Note 3)*	Trading of electrical household appliances
Kario Company Limited ("Kario HK")	Hong Kong 21st December, 2001	HK$10,000	50% *(Note 3)*	Investment holding and trading

Notes:

(1) On 31st March, 2003, Kenford HK had disposed of its entire 100% interests in Union Nice and Smart Host. Accordingly, the result of operations and financial positions of Union Nice and Smart Host have been reflected in the combined financial statements up to the date of disposal.

(2) Wise Pride has remained dormant in 2000 to 2002 and was deregistered in January, 2002. Accordingly, the result of operation and financial position of Wise Pride have been reflected in the combined financial statements up to the date of deregistration.

(3) Kenford HK had disposed of its entire 50% interest in Kario HK and Unix HK on 31st March, 2003 and 31st December, 2003, respectively. Accordingly, the share of results of operations and net assets of Kario HK and Unix HK have been reflected in the combined financial statements up to the date of disposal.

Subsequent to the Exchange of Shares, the Company entered into further transactions (the "Further Acquisitions") to complete its reorganisation on 23rd March, 2005, the details of which are set out in the section headed "Corporate reorganisation" in Appendix VIII to the Prospectus. These transactions comprise primarily of acquisitions of the entire interests in the entities set out below:

Name of company	Country/place and date of incorporation/ establishment	Issued/ registered/ paid-up capital	Equity interests attributable to the Company		Principal activities
			Directly	Indirectly	
Kario Company Limited ("Kario HK")	Hong Kong 21st December, 2001	HK$10,000		100%	Investment holding and trading
東莞家利來電器有限公司 Dongguan Kario Electrical Appliance Company Limited ("DG Kario") *	The People's Republic of China 21st March, 2002	RMB4,240,000 (equivalent to HK$4,000,000)		100%	Manufacturing and selling of electrical household appliances

* *DG Kario is a wholly foreign-owned enterprise.*

For the purpose of this accountants' report, the "Group" is defined as the Company and its subsidiaries after the Exchange of Shares but before the Further Acquisitions.

As at the date of this report, no audited financial statements have been prepared for the Company, Asia Pilot and Sky Ocean since the dates of their incorporation because these companies were newly incorporated and have not been involved in any significant business transactions other than the Exchange of Shares and the Further Acquisitions. We have, however, reviewed all the relevant transactions of these companies for the period since their dates of incorporation to the date of this report, and carried out such procedures as we considered necessary for inclusion in Sections B to I (the "Financial Information") of this report.

The statutory financial statements of the other companies for the Relevant Audited Periods covered by this report were audited by BDO McCabe Lo & Company except for the following:

Name of company	Financial period	Auditors
Kenford HK	Year ended 31st March, 2002	C.W. Leung & Co.
Union Nice	Three years ended 31st March, 2004	C.W. Leung & Co.
Smart Host	Three years ended 31st March, 2004	C.W. Leung & Co.
Wise Pride	*Note (i)*	*Note (i)*
Unix HK	Three years ended 31st March, 2004	C.W. Leung & Co.
Kario HK	21st December, 2001 (date of incorporation) to 31st March, 2003	C.W. Leung & Co.

Note:

(i) No significant business transactions have been entered into since 1st April, 2001 to 18th January, 2002 (date of deregistration) and thus the financial statements for the respective period has not been audited.

For the purpose of this report, we have examined the audited financial statements or, where appropriate, unaudited management accounts of all companies now comprising the Group for the Relevant Audited Periods, and have carried out such additional procedures as are necessary in accordance with the Auditing Guideline "Prospectuses and the Reporting Accountant" as recommended by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

The Financial Information has been prepared from the audited financial statements or, where appropriate, management accounts of the companies now comprising the Group, after making such adjustments as we considered appropriate, on the basis set out in Section A below.

The directors of the respective companies now comprising the Group are responsible for preparing financial statements. In preparing these financial statements which give a true and fair view, it is fundamental that appropriate accounting policies are selected and applied consistently that reasonable judgments and estimates are made. The directors of the Company are also responsible for the preparation of the Financial Information and the contents of the Prospectus in which this report is included.

It is our responsibility to form an independent opinion on the Financial Information, based on our audit and to report our opinion to you.

In our opinion, on the basis of presentation set out in Section A below, the Financial Information gives, for the purpose of this report, a true and fair view of the combined results and cash flows of the Group for the Relevant Audited Periods and the combined balance sheets of the Group as at 31st March, 2002, 31st March, 2003, 31st March, 2004 and 31st December, 2004.

Review opinion on the financial information for the nine months ended 31st December, 2003

The combined income statement, combined cash flow statement and combined statement of changes in equity of the Group for the nine months ended 31st December, 2003, together with the notes thereon, as set out in this report were prepared by the directors of the Company from the unaudited management accounts of the companies now comprising the Group, after making such adjustments as we considered appropriate, on the basis set out in Section A below.

For the purpose of this report, we have conducted a review on the financial information of the Group for the nine months ended 31st December, 2003 in accordance with Statement of Auditing Standards 700 "Engagements to review interim financial reports" issued by the HKICPA. A review consists principally of making enquiries of management and applying analytical procedures to the financial information of the Group for the the nine months ended 31st December, 2003 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 financial information of the Group for the nine months ended 31st December, 2003.

In our opinion, 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 financial information of the Group for the nine months ended 31st December, 2003.

A. BASIS OF PRESENTATION

The Financial Information, which are prepared based on the audited financial statements or, where appropriate, management accounts of the companies now comprising the Group, include the combined income statements, combined balance sheets, combined cash flow statements and combined statements of changes in equity of the companies now comprising the Group as if the group structure established upon the Exchange of Shares (but before the Further Acquisitions) had been in existence throughout the Relevant Periods.

At the beginning of the Relevant Periods as of 1st April, 2001, both Union Nice and Smart Host were engaged in property investment and were wholly owned subsidiaries of the Group. On 31st March, 2003, the Group had disposed of its entire interests in Union Nice and Smart Host. The results of operations and financial positions of Union Nice and Smart Host have been reflected in the combined financial statements since their dates of acquisitions up to the date of disposal. Wise Pride had remained dormant since 2000 and was deregistered in January 2002. Accordingly, the result of operation and financial position of Wise Pride have been reflected in the combined financial statements up to the date of deregistration. Kario HK and Unix HK were two associates established by the Group in December 2001 and September 2000, respectively. The Group had disposed of its entire interests in Kario HK and Unix HK on 31st March, 2003 and 31st December, 2003, respectively. The share of results of operations and net assets of Kario HK and Unix HK have been reflected in the combined financial statements since their dates of acquisitions up to the dates of disposal.

All material intra-group transactions and balances between companies comprising the Group have been eliminated on combination.

B. COMBINED INCOME STATEMENTS

The following is a summary of the combined income statements of the Group for the Relevant Periods prepared on the basis set out in Section A above:

	Section F Notes	**Year ended 31st March, 2002**	**2003**	**2004**	**Nine months ended 31st December, 2004**	**2003**
		HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000 (Unaudited)*
Turnover	2	290,323	284,882	301,634	383,654	239,147
Cost of sales		(241,621)	(215,111)	(232,979)	(295,981)	(180,828)
Gross profit		48,702	69,771	68,655	87,673	58,319
Other revenue	3	8,761	4,820	6,790	5,878	5,482
Impairment loss on land and buildings		–	–	(583)	–	–
Loss on disposals of property, plant and equipment		–	(3,473)	–	–	–
Selling and distribution expenses		(9,925)	(9,438)	(8,356)	(6,647)	(6,461)
General and administrative expenses		(31,975)	(26,330)	(27,890)	(22,138)	(20,573)
Profit from operations	5	15,563	35,350	38,616	64,766	36,767
Finance costs	7	(6,406)	(5,054)	(3,495)	(2,716)	(2,652)
Revaluation deficit		–	(2,020)	–	–	–
Gain on disposal of subsidiaries		–	20,504	–	–	–
Gain on disposal of associates		–	790	22	–	22
Share of profits and losses of associates		36	(802)	(11)	–	(11)
Profit before taxation		9,193	48,768	35,132	62,050	34,126
Taxation	8	(742)	364	(4,056)	(5,132)	(3,909)
Net profit attributable to shareholders		8,451	49,132	31,076	56,918	30,217
Dividends	9	–	2,828	80,000	10,000	–
Basic earnings per share *(cents)*	10	2.82	16.38	10.36	18.97	10.07

C. COMBINED BALANCE SHEETS

The following is a summary of the combined balance sheets of the Group for the Relevant Audited Periods prepared on the basis set out in Section A above:

	Section F Notes	2002	31st March, 2003	2004	31st December, 2004
		HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Non-current assets					
Property, plant and equipment	*11*	108,234	83,650	77,527	78,519
Interests in associates	*12*	78	563	–	–
		108,312	84,213	77,527	78,519
Current assets					
Inventories	*14*	36,701	41,755	50,867	60,348
Accounts and bills receivable	*15*	11,520	18,628	26,709	37,357
Deposits, prepayments and other receivables		1,502	2,755	4,225	10,715
Amounts due from directors	*16(a)*	29,253	39,001	–	–
Amounts due from related companies	*16(b)*	582	17,770	10,338	13,515
Pledged bank deposit		2,561	6,084	6,043	6,048
Cash and cash equivalents	*18(b)*	12,696	23,176	30,020	135,261
		94,815	149,169	128,202	263,244

	Section F Notes	2002 *HK$'000*	31st March, 2003 *HK$'000*	2004 *HK$'000*	31st December, 2004 *HK$'000*
Current liabilities					
Accounts and bills payable	*19*	45,434	34,941	38,001	71,618
Accruals and other payables		12,301	7,647	12,133	12,725
Dividends payable		–	2,828	17,429	9,867
Amounts due to directors	*17(a)*	2,986	–	–	–
Amount due to a related company	*17(b)*	–	–	943	–
Borrowings – due within one year	*20*	31,037	51,965	61,843	120,647
Bank overdrafts, secured	*18(b)*	197	1,736	–	–
Obligations under finance leases – due within one year	*21*	4,106	1,959	2,387	1,510
Taxation payable		–	2,047	317	5,449
		96,061	103,123	133,053	221,816
Net current assets/ (liabilities)		(1,246)	46,046	(4,851)	41,428
Total assets less current liabilities		107,066	130,259	72,676	119,947
Non-current liabilities					
Borrowings – due after one year	*20*	35,468	15,895	7,841	8,352
Obligations under finance leases – due after one year	*21*	3,065	2,291	930	772
Deferred tax	*13*	4,742	1,978	2,734	2,734
Net assets		63,791	110,095	61,171	108,089
Capital and reserves					
Capital	*22*	1,000	1,000	1,000	1,000
Retained profits		62,791	109,095	60,171	107,089
		63,791	110,095	61,171	108,089

D. COMBINED CASH FLOW STATEMENTS

The following is a summary of the combined cash flow statements of the Group for the Relevant Periods prepared on the basis set out in Section A above:

	Section F Notes	Year ended 31st March, 2002 *HK$'000*	Year ended 31st March, 2003 *HK$'000*	Year ended 31st March, 2004 *HK$'000*	Nine months ended 31st December, 2004 *HK$'000*	Nine months ended 31st December, 2003 *HK$'000* *(Unaudited)*
Cash flows from operating activities						
Profit before taxation		9,193	48,768	35,132	62,050	34,126
Adjustments for:						
Depreciation of property, plant and equipment		14,089	12,352	11,721	8,728	8,419
Interest income		(74)	(133)	(187)	(75)	(142)
Interest expenses		6,406	5,054	3,495	2,716	2,652
(Gain)/loss on disposal of property, plant and equipment		36	3,473	(146)	–	(146)
Impairment loss on land and buildings		–	–	583	–	–
Revaluation deficit		–	2,020	–	–	–
Gain on disposal of subsidiaries		–	(20,504)	–	–	–
Gain on disposal of associates		–	(790)	(22)	–	(22)
Share of (profit)/losses in associates		(36)	802	11	–	11
Operating profit before changes in working capital		29,614	51,042	50,587	73,419	44,898
(Increase)/decrease in amounts due from associates		(78)	(497)	574	–	574
(Increase)/decrease in inventories		19,101	(5,054)	(9,112)	(9,481)	(5,557)
(Increase)/decrease in accounts and bills receivable		1,353	(7,108)	(8,081)	(10,648)	(4,796)
(Increase)/decrease in deposits, prepayments and other receivables		2,622	(1,272)	(1,470)	(6,490)	(1,160)
(Increase)/decrease in amounts due from related companies		87	(5,572)	8,375	(4,120)	(3,479)
Increase/(decrease) in accounts and bills payable		(2,053)	(10,493)	3,060	33,617	14,641
Increase/(decrease) in accruals and other payables		(8,727)	(4,581)	4,486	592	2,119

	Section F Notes	Year ended 31st March, 2002 HK$'000	2003 HK$'000	2004 HK$'000	Nine months ended 31st December, 2004 HK$'000	2003 HK$'000 (Unaudited)
Net cash generated from operations		41,919	16,465	48,419	76,889	47,240
Interest expenses		(6,406)	(5,054)	(3,495)	(2,716)	(2,652)
Hong Kong profits tax refund/(paid)		492	(353)	(5,030)	–	–
Net cash generated from operating activities		36,005	11,058	39,894	74,173	44,588
Cash flows from investing activities						
Purchase of property, plant and equipment		(12,212)	(2,523)	(5,830)	(8,840)	(3,675)
(Increase)/decrease in pledged bank deposit		(58)	(3,523)	41	(5)	(79)
Proceeds from disposal of plant and machinery		–	1,182	146	–	146
Disposal of subsidiaries, net of cash disposed	*18(a)*	–	(105)	–	–	–
Increase in investment in an associate	*18(d)*	–	–	(1,000)	–	(1,000)
Proceeds from disposal of an associate	*18(d)*	–	–	1,000	–	1,000
Interest received		74	133	187	75	142
Net cash used in investing activities		(12,196)	(4,836)	(5,456)	(8,770)	(3,466)

	Section F Notes	Year ended 31st March, 2002 HK$'000	2003 HK$'000	2004 HK$'000	Nine months ended 31st December, 2004 HK$'000	2003 HK$'000 (Unaudited)
Cash flows from financing activities						
Increase in amounts due from directors	*18(c)*	(7,682)	(9,748)	(23,570)	(17,562)	(15,408)
Increase in amounts due to directors		2,986	–	–	–	–
Increase/(decrease) in trust receipt loans		(4,022)	18,734	7,681	45,468	11,716
Proceeds from/(repayment of) bank loans		6,423	(3,346)	(5,857)	13,847	9,151
Repayment of finance leases liabilities		(1,649)	(2,921)	(1,284)	(1,915)	(673)
Dividends paid		–	–	(2,828)	–	(2,828)
Net cash generated from/(used in) financing activities		(3,944)	2,719	(25,858)	39,838	1,958
Net increase in cash and cash equivalents		19,865	8,941	8,580	105,241	43,080
Cash and cash equivalents at beginning of year/period		(7,366)	12,499	21,440	30,020	21,440
Cash and cash equivalents at end of year/period	*18(b)*	12,499	21,440	30,020	135,261	64,520

E. COMBINED STATEMENTS OF CHANGES IN EQUITY

The following is a summary of the combined statements of changes in equity of the Group for the Relevant Periods prepared on the basis set out in Section A above:

	Year ended 31st March,			Nine months ended 31st December,	
	2002	**2003**	**2004**	**2004**	**2003**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
					(Unaudited)
Shareholders' equity at beginning of year/period	55,340	63,791	110,095	61,171	110,095
Net profit attributable to shareholders	8,451	49,132	31,076	56,918	30,217
Interim dividends declared	–	(2,828)	(80,000)	–	–
Special dividends declared	–	–	–	(10,000)	–
Shareholders' equity at end of year/period	63,791	110,095	61,171	108,089	140,312

F. NOTES TO THE FINANCIAL INFORMATION

1. PRINCIPAL ACCOUNTING POLICIES

The Financial Information is prepared under the historical cost convention. The principal accounting policies adopted by the Group in the preparation of the Financial Information set out in this report conform with accounting principles generally accepted in Hong Kong and are in accordance with all applicable Hong Kong Financial Reporting Standards (which includes all applicable Statements of Standard Accounting Practice ("SSAPs") and Interpretations), issued by the HKICPA as follows:

a. Subsidiaries

A subsidiary is an entity in which the Company is able to exercise its control on it. Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

The results of subsidiaries acquired or disposed of during the Relevant Periods are included in the combined income statements from the effective dates of acquisition or up to the effective dates of disposal, as appropriate.

The gain or loss on the disposal of a subsidiary represents the difference between the proceeds of the sale and the Group's share of its net assets.

b. Associates

An associate is an enterprise over which the Company is in a position to exercise significant influence through participation in the financial and operating policy decisions of the investee.

Investments in associates are accounted for in the combined financial statements under the equity method of accounting whereby the investment is initially recorded at cost and adjusted thereafter for the post-acquisition change in the Group's share of net assets of the investees. The combined income statements reflect the Group's share of the results of operation of the investees.

The gain or loss on the disposal of an associate represents the difference between the proceeds of the sale and the Group's share of its net assets.

c. Revenue recognition

Revenue from goods sold is recognised when title of goods sold has passed to the purchaser, which is at the time of delivery.

Reimbursement of mould costs is recognised when all conditions provided under the agreement to reimburse the development costs of moulds have been met and duly confirmed by customers.

1. PRINCIPAL ACCOUNTING POLICIES – Continued

c. Revenue recognition – Continued

Commissions income is recognised when the services related to introduction of and liaison with customers are rendered.

Rental income under operating leases is recognised on a straight-line basis over the term of the relevant lease.

Interest income is accrued on a time basis on the principal outstanding at the applicable interest rate.

d. Income taxes

Income taxes for the period comprise current tax and deferred tax.

Current tax is based on the profit or loss from ordinary activities adjusted for items that are non-assessable or disallowable for income tax purposes and is calculated using tax rates that have been enacted or substantively enacted at the balance sheet date.

Deferred tax arises from temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the corresponding amounts used for tax purposes and is accounted for using the balance sheet liability method. Except for recognised assets and liabilities that affect neither accounting nor taxable profits, deferred tax liabilities are recognised for all temporary differences. Deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Deferred tax is measured at the tax rates expected to apply in the period when the liability is settled or the asset is realised based on tax rates that have been enacted or substantively enacted at the balance sheet date.

Income taxes are recognised in the income statement except when they relate to an item directly recognised to equity in which case the taxes are also directly recognised in equity.

e. Investment properties

Investment properties are interests in land and buildings in respect of which construction work has been completed and which are held for their long term investment potential, any rental income being negotiated at arm's length.

Investment properties are stated at their open market value based on valuations carried out at each balance sheet date by independent professional valuers. The valuations are based on individual properties and separate values are not attributed to land and buildings.

Increases in valuation are credited to the investment property revaluation reserve. Decreases in valuation are first set off against increases on earlier valuations on a portfolio basis and thereafter are charged to the income statement. Any subsequent increases are credited to the income statement up to the amount previously charged.

1. PRINCIPAL ACCOUNTING POLICIES – Continued

e. Investment properties – Continued

Investment properties are not depreciated except where the unexpired term of the lease is 20 years or less in which case depreciation is provided on the carrying amount over the remaining term of the lease.

Upon the disposal of an investment property, the relevant portion of the revaluation reserve realised in respect of previous revaluations is released from the investment property revaluation reserve to the income statement.

f. Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and impairment losses, if any. The cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to its present working condition and location for its intended use. Expenditure incurred after property, plant and equipment have been put into operation, such as repairs and maintenance and overhaul costs, is normally charged to the income statement in the period in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of the asset, the expenditure is capitalised as an additional cost of the asset.

When property, plant and equipment are sold or retired, their cost, accumulated depreciation and impairment losses eliminated and any gain or loss resulting from their disposal is included in the income statement.

Depreciation is provided to write off the property, plant and equipment over their estimated useful lives on a straight-line basis, at the following annual rates:

Leasehold land in Hong Kong	Over the unexpired term of the lease
Buildings in Hong Kong	2.5%
Land and buildings in the PRC	2% to 5%
Leasehold improvements	20%
Plant and machinery	10%
Furniture, fixtures and equipment	20%
Motor vehicles	20%
Moulds	20%

1. PRINCIPAL ACCOUNTING POLICIES – Continued

g. Borrowing costs

All borrowing costs are expensed in the income statement in the period in which they are incurred. However, borrowing costs attributable directly to the acquisition, construction or production of assets which require a substantial period of time to be ready for their intended use or sale, are capitalised as part of the cost of those assets. Income earned on temporary investments of specific borrowings pending their expenditure on those assets is deducted from borrowing costs capitalised.

h. Inventories

Inventories are stated at the lower of cost and net realisable value.

Cost which comprises direct materials, and where applicable, direct labour costs and those overheads that have been incurred in bringing the inventories to their present location and condition, is calculated on the first-in-first-out method.

Net realisable value represents 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. Impairment

The carrying amounts of the Group's tangible assets are reviewed annually at each balance sheet date to determine whether they have been impaired during the year. Where an asset has been impaired, the recoverable amount of the asset is determined. Where the carrying amount exceeds the recoverable amount, the asset is written down to its recoverable amount. The resultant impairment loss is recognised as an expense in the income statement.

An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. When an impairment loss subsequently reverses, the carrying amount of the asset is increased to the reversed estimate of its recoverable amount, to the extent that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately.

1. PRINCIPAL ACCOUNTING POLICIES – Continued

j. Cash and cash equivalents

Cash and cash equivalents are carried in the combined balance sheets at cost. For the purposes of the combined cash flow statements, cash and cash equivalents comprise cash on hand, deposits held at call with banks, cash investments with a maturity of three months or less from date of investment and bank overdrafts.

k. Leases

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Assets held under finance leases are recognised as assets of the Group at amounts equal to the lower of their fair value and present value of the minimum lease payments at the inception of the lease, less accumulated depreciation and impairment losses. The corresponding liability to the lessor is included in the balance sheet as a finance lease obligation. Finance costs, which represent the difference between the total leasing commitments and the fair value of the assets acquired, are charged to the income statement over the term of the relevant lease.

Lease payments under operating leases are expensed on a straight-line basis over the accounting periods covered by the lease terms.

l. Research and development costs

Research costs are expensed as incurred. Costs incurred on development projects relating to the design, testing and production technique of new or improved products are recognised as an asset where the technical feasibility and intention of completing the product under development has been demonstrated and resources are available to do so, costs are identifiable and there is an ability to sell or use the asset that will generate probable future economic benefits.

m. Employee benefits

(i) Defined contribution retirement plan

Obligations for contributions to the statutorily required Mandatory Provident Fund, a defined contribution retirement plan, are recognised as an expense in the income statement as incurred.

1. PRINCIPAL ACCOUNTING POLICIES – Continued

m. Employee benefits – Continued

(ii) Employment Ordinance long term service payments

Certain of the Group's Hong Kong based employees have completed the required number of years of service to the Group in order to be eligible for long service payments under the Hong Kong Employment Ordinance in the event of the termination of their employment. The Group is liable to make such payments in the event that such a termination of employment meets the circumstances specified in the Employment Ordinance. A provision has not been recognised in respect of such possible payments, as it is not considered probable that the termination will result in a material future outflow of resources from the Group.

(iii) Termination benefits

Termination benefits are recognised when, and only when, the Group demonstrably commits itself to terminate employment or to provide benefits as a result of voluntary redundancy by having a detailed formal plan which is without realistic possibility of withdrawal.

(iv) Other employee entitlements

Employee entitlements to annual leave and long service leave due on retirement or termination are recognised when they accrue to the employees.

n. Provisions and contingent liabilities

Provisions are recognised for liabilities of uncertain timing or amount when the Group has a legal or constructive obligation arising as a result of a past event, which will probably result in an outflow of economic benefits that can be reasonably estimated. Where the time value of money is material, provisions are stated at present value of the expenditure 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 of economic benefits is remote. Possible obligations, the existence of which 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 of economic benefits is remote.

1. PRINCIPAL ACCOUNTING POLICIES – Continued

o. Foreign currencies

Foreign currency transactions during the period are translated into Hong Kong dollars at the exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated into Hong Kong dollars at the market rates of exchange ruling at that date. All exchange differences are dealt with in the income statement.

p. Dividends

Interim dividends are recognised directly as a liability when they are proposed and declared by the directors.

Final dividends proposed by the directors are classified as a separate allocation of retained profits within capital and reserves in the balance sheet. Final dividends are recognised as a liability when they are approved by the shareholders.

q. Related parties

Parties are considered to be related if the Group 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.

r. Segment reporting

A segment is a distinguishable component of the Group that is engaged either in providing products (business segment), or in providing products within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments.

Segment revenue, expenses, results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis to that segment.

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

1. PRINCIPAL ACCOUNTING POLICIES – Continued

s. Recently issued accounting standards

The HKICPA has issued a number of new and revised Hong Kong Financial Reporting Standards and Hong Kong Accounting Standards ("new HKFRSs"), which are effective for accounting periods beginning on or after 1st January, 2005. The Group has not early adopted these new HKFRSs in the combined financial statements during the Relevant Periods. The Group has already commenced an initial assessment of the impact of these new HKFRSs and considered that the adoption of these new HKFRSs would not have a significant impact on its results of operations and financial positions.

2. TURNOVER

The Group is principally engaged in the manufacturing and selling of electrical household appliances. Turnover represents the net invoiced value of goods sold which is the most significant category of revenue during the Relevant Periods.

3. OTHER REVENUE

	Year ended 31st March,			Nine months ended 31st December,	
	2002	**2003**	**2004**	**2004**	**2003**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
					(Unaudited)
Reimbursement of mould costs (i)	7,327	2,159	2,291	2,356	1,583
Commissions income (ii)	170	1,899	3,784	2,563	3,304
Gain on disposals of property, plant and equipment	–	–	146	–	146
Exchange gain, net	232	–	–	–	–
Rental income from investment properties	316	252	–	–	–
Interest income	74	133	187	75	142
Sample sales	88	85	24	45	23
Sundry income	554	292	358	839	284
	8,761	4,820	6,790	5,878	5,482

(i) Reimbursement of mould costs represent customers' reimbursement of mould costs for the Group's manufacture of products.

(ii) Commissions income represent income earned from related companies for the introduction and referral of business opportunities and for rendering of overall management support.

4. SEGMENT INFORMATION

Segment information is presented in respect of the Group's business and geographical segments. Business segment information is chosen as the primary reporting format because this is more relevant to the Group in making operating and financial decisions.

(a) Business segments

Throughout the Relevant Periods, the Group has been operating in a single business segment, that is the manufacturing and selling of electrical household appliances.

(b) Geographical segments

The Group's revenue is mainly derived from customers located in Europe, North and South America and Asia while the Group's business activities are conducted predominantly in Hong Kong and the PRC.

The following is an analysis of the Group's sales by geographical location of customers:

	Year ended 31st March,			Nine months ended 31st December,	
	2002	**2003**	**2004**	**2004**	**2003**
	HK\$'000	*HK\$'000*	*HK\$'000*	*HK\$'000*	*HK\$'000*
					(Unaudited)
Europe	225,922	215,203	220,507	289,267	186,329
North and South America	27,279	24,408	26,506	26,117	16,912
Asia	20,036	38,057	28,628	28,588	20,882
Australia	8,016	3,565	19,625	31,035	8,777
Africa	9,070	3,649	6,368	8,647	6,247
	290,323	284,882	301,634	383,654	239,147

4. SEGMENT INFORMATION – CONTINUED

(b) Geographical segments – Continued

The following is an analysis of the carrying amount of segment assets, analysed by the geographical area in which the assets are located:

	Segment assets			
		31st March,		31st December,
	2002	**2003**	**2004**	**2004**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Hong Kong	79,949	118,062	85,462	210,778
PRC (excluding Hong Kong)	123,100	114,757	120,267	130,985
	203,049	232,819	205,729	341,763
Interests in associates	78	563	–	–
	203,127	233,382	205,729	341,763

The following is an analysis of capital expenditure, analysed by the geographical area in which the assets are located:

	Capital expenditure				
	Year ended 31st March,			Nine months ended 31st December,	
	2002	**2003**	**2004**	**2004**	**2003**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
					(Unaudited)
Hong Kong	406	401	242	247	224
PRC (excluding Hong Kong)	14,366	2,122	5,939	9,473	3,767
	14,772	2,523	6,181	9,720	3,991

5. PROFIT FROM OPERATIONS

Profit from operations is stated after charging:

	Year ended 31st March,			Nine months ended 31st December,	
	2002	**2003**	**2004**	**2004**	**2003**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
					(Unaudited)
Auditors' remuneration	129	180	161	225	119
Cost of inventories sold	241,621	215,111	232,979	295,981	180,828
Depreciation					
– Owned	12,743	10,596	9,730	7,356	6,997
– Held under finance leases	1,346	1,756	1,991	1,372	1,422
Exchange losses, net	–	370	1,147	253	673
Loss on disposals of property, plant and equipment	36	3,473	–	–	–
Staff costs (including directors' emoluments and retirement benefits scheme contributions)					
– Basic salaries, bonuses, allowances and benefits in kind	40,251	37,710	40,839	36,908	30,847
Less: Amount paid under PRC sub-processing arrangement	(22,772)	(22,188)	(24,597)	(24,465)	(18,235)
	17,479	15,522	16,242	12,443	12,612
Retirement benefits scheme contributions	483	418	386	327	272
Research and development costs	5,317	4,468	4,373	2,654	2,956
Provision for/(reversal of) obsolete inventories	–	2,527	199	(73)	107

6. DIRECTORS' AND SENIOR EXECUTIVES' EMOLUMENTS

(a) Directors' emoluments

Details of emoluments paid and payable to directors of the Company during the Relevant Periods are as follows:

	Year ended 31st March,			Nine months ended 31st December,	
	2002	**2003**	**2004**	**2004**	**2003**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
					(Unaudited)
Fees	–	–	–	–	–
Salaries, allowance and benefits in kind	3,160	2,860	3,456	2,850	2,720
Discretionary bonus	–	–	–	–	–
Retirement benefits scheme contributions	24	24	34	27	25
	3,184	2,884	3,490	2,877	2,745

Analysis of emoluments of directors by number of individuals and emolument range is as follows:

	Year ended 31st March,			Nine months ended 31st December,	
	2002	**2003**	**2004**	**2004**	**2003**
	Number	*Number*	*Number*	*Number*	*Number*
					(Unaudited)
Nil to HK$1,000,000	–	–	1	1	1
HK$1,000,001 to HK$1,500,000	–	2	2	2	2
HK$1,500,001 to HK$2,000,000	2	–	–	–	–
	2	2	3	3	3

6. DIRECTORS' AND SENIOR EXECUTIVES' EMOLUMENTS – Continued

(a) Directors' emoluments – Continued

Emoluments of the directors are as follows:

	Year ended 31st March,			Nine months ended 31st December,	
	2002	**2003**	**2004**	**2004**	**2003**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
					(Unaudited)
Director A	1,592	1,442	1,442	1,109	1,109
Director B	1,592	1,442	1,442	1,109	1,109
Director C	–	–	606	659	527
	3,184	2,884	3,490	2,877	2,745

There were no arrangements under which a director waived or agreed to waive any remuneration during the Relevant Periods.

All of the non-executive directors and independent non-executive directors received no emoluments from the Group during the Relevant Periods.

(b) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the Relevant Periods are as follows:

	Year ended 31st March,			Nine months ended 31st December,	
	2002	**2003**	**2004**	**2004**	**2003**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
					(Unaudited)
Directors	3,184	2,884	3,490	2,877	2,745
Non-directors	2,075	2,187	1,650	1,278	1,278
	5,259	5,071	5,140	4,155	4,023

6. DIRECTORS' AND SENIOR EXECUTIVES' EMOLUMENTS – Continued

(b) Five highest paid individuals – Continued

Details of the emoluments of non-directors mentioned above are as follows:

	Year ended 31st March,			Nine months ended 31st December,	
	2002	**2003**	**2004**	**2004**	**2003**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
					(Unaudited)
Salaries, allowances and benefits in kind	2,039	2,151	1,626	1,260	1,260
Discretionary bonus	–	–	–	–	–
Retirement benefits scheme contributions	36	36	24	18	18
	2,075	2,187	1,650	1,278	1,278

Analysis of emoluments of non-directors by number of individuals and emolument range is as follows:

	Year ended 31st March,			Nine months ended 31st December,	
	2002	**2003**	**2004**	**2004**	**2003**
	Number	*Number*	*Number*	*Number*	*Number*
Nil to HK$1,000,000	3	3	2	2	2

During the Relevant Periods, no emoluments were paid by the companies now comprising the Group to any of the directors or the five highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of offices.

7. FINANCE COSTS

	Year ended 31st March,			Nine months ended 31st December,	
	2002	**2003**	**2004**	**2004**	**2003**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
					(Unaudited)
Interest on bank loans and overdrafts (i)	3,094	2,377	1,318	739	994
Interest on trust receipt loans	2,705	2,350	2,018	1,915	1,523
Interest on finance leases	607	327	159	62	135
	6,406	5,054	3,495	2,716	2,652

(i) Bank loans and overdrafts are wholly repayable within five years.

8. TAXATION

The amount of taxation in the combined income statements represents:

	Year ended 31st March,			Nine months ended 31st December,	
	2002	2003	2004	2004	2003
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000* *(Unaudited)*
Current profits tax – Hong Kong					
– Tax for the year/period	–	2,400	3,249	5,132	3,102
– Overprovision in respect of current year	–	–	128	–	–
– Overprovision in respect of prior year	–	–	(77)	–	–
	–	2,400	3,300	5,132	3,102
Deferred taxation *(Note 13)*					
– Current year/period	742	(244)	(169)	–	(118)
– Under/(over) provision in previous years	–	(2,700)	925	–	925
– Attributable to change in tax rate	–	180	–	–	–
	742	(2,764)	756	–	807
Tax charge/(credit) for the year/period	742	(364)	4,056	5,132	3,909

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

Hong Kong profits tax has been provided for at the rate of 16%, 16%, 17.5%, 17.5% and 17.5% on the estimated assessable profits less allowable losses brought forward of the companies within the Group for the Relevant Periods respectively.

8. TAXATION – Continued

The tax expense for the Relevant Periods can be reconciled to the profit per the combined income statements as follows:

	Year ended 31st March,			Nine months ended 31st December,	
	2002	**2003**	**2004**	**2004**	**2003**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000* *(Unaudited)*
Profit before taxation	9,193	48,768	35,132	62,050	34,126
Applicable Hong Kong profits tax rate	16%	16%	17.5%	17.5%	17.5%
Tax charge at applicable Hong Kong profits tax rate	1,471	7,803	6,148	10,859	5,972
Tax effect of income that is not taxable in determining taxable profits (i)	(834)	(6,273)	(3,268)	(5,447)	(3,009)
Tax effect of expenditure that is not deductible in determining taxable profits	–	477	199	24	42
Tax effect of unused tax losses not recognised	117	96	–	–	–
Increase in deferred tax assets resulting from an increase in Hong Kong profits tax rate	–	180	–	–	–
Overprovision of profits tax in respect of prior year	–	–	(77)	–	–
Overprovision of profits tax in current year	–	–	128	–	–
Under/(over) provision of deferred tax liability in prior years/period	–	(2,700)	925	–	925
Tax effect of excess depreciation allowances over depreciation charges not recognised	–	–	–	(304)	–
Others	(12)	53	1	–	(21)
	742	(364)	4,056	5,132	3,909

(i) This amount mainly represent the tax effect of gain on disposal of subsidiaries and the 50% of assessable profit of Kenford HK during the Relevant Periods which were exempted under Departmental Interpretation of Practice Notes 21 issued by the Inland Revenue Department of Hong Kong.

9. DIVIDENDS

The following interim and final dividends were proposed by Kenford HK throughout the Relevant Periods to its then shareholders.

	Year ended 31st March,			Nine months ended 31st December,	
	2002	**2003**	**2004**	**2004**	**2003**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
					(Unaudited)
Interim dividends declared	–	2,828	80,000	–	–
Special dividends declared	–	–	–	10,000	–
	–	2,828	80,000	10,000	–

The rate of the dividends and the number of shares ranking for the dividends are not presented as such information, in the opinion of directors, is not meaningful for the purpose of this report.

10. EARNINGS PER SHARE

The calculation of basic earnings per share is based on the Group's combined net profit attributable to shareholders for the Relevant Periods and on the assumption that 300,000,000 shares of the Company are in issue and issuable, comprising 100,000,000 shares in issue at the date of the Prospectus and 200,000,000 shares to be issued pursuant to the capitalisation issue as set out in Appendix VIII to the Prospectus.

No diluted earnings per share is presented as no diluting event existed during the Relevant Periods.

11. PROPERTY, PLANT AND EQUIPMENT

	Leasehold land and buildings in Hong Kong *(Note (i))* *HK$'000*	Land and buildings in the PRC *(Note (ii))* *HK$'000*	Investment properties *(Note (iii))* *HK$'000*	Leasehold improve-ments *HK$'000*	Plant and Machinery *HK$'000*	Fixtures, furniture and equipment *HK$'000*	Motor vehicles *HK$'000*	Moulds *HK$'000*	Total *HK$'000*
Cost or valuation									
At 1st April, 2001	15,938	43,148	10,100	3,142	39,724	15,418	2,132	50,411	180,013
Additions	–	136	–	797	6,258	1,544	–	6,037	14,772
Disposals	–	–	–	(45)	–	–	–	–	(45)
At 31st March, 2002	15,938	43,284	10,100	3,894	45,982	16,962	2,132	56,448	194,740
Additions	–	–	–	96	271	1,254	188	714	2,523
Deficit on revaluation	–	–	(2,020)	–	–	–	–	–	(2,020)
Disposals	–	–	(8,080)	–	(12,115)	(12,065)	–	(24,682)	(56,942)
At 31st March, 2003	15,938	43,284	–	3,990	34,138	6,151	2,320	32,480	138,301
Additions	–	–	–	190	1,329	1,083	–	3,579	6,181
Disposals	–	–	–	–	(756)	(337)	–	(2,878)	(3,971)
At 31st March, 2004	15,938	43,284	–	4,180	34,711	6,897	2,320	33,181	140,511
Additions	–	–	–	333	1,086	4,584	–	3,717	9,720
Disposals	–	–	–	–	(4,978)	(504)	–	(3,305)	(8,787)
At 31st December, 2004	15,938	43,284	–	4,513	30,819	10,977	2,320	33,593	141,444
Accumulated depreciation and impairment									
At 1st April, 2001	2,713	1,578	–	628	16,838	12,341	993	37,335	72,426
Charge for the year	352	999	–	779	4,242	1,340	426	5,951	14,089
Written back on disposals	–	–	–	(9)	–	–	–	–	(9)
At 31st March, 2002	3,065	2,577	–	1,398	21,080	13,681	1,419	43,286	86,506
Charge for the year	353	1,002	–	798	3,414	1,062	464	5,259	12,352
Written back on disposals	–	–	–	–	(8,777)	(11,102)	–	(24,328)	(44,207)
At 31st March, 2003	3,418	3,579	–	2,196	15,717	3,641	1,883	24,217	54,651
Charge for the year	352	1,002	–	836	3,471	1,193	181	4,686	11,721
Impairment loss	–	583	–	–	–	–	–	–	583
Written back on disposals	–	–	–	–	(756)	(337)	–	(2,878)	(3,971)

11. PROPERTY, PLANT AND EQUIPMENT – Continued

	Leasehold land and buildings in Hong Kong (Note (i)) HK$'000	Land and buildings in the PRC (Note (ii)) HK$'000	Investment properties (Note (iii)) HK$'000	Leasehold improve-ments HK$'000	Plant and Machinery HK$'000	Fixtures, furniture and equipment HK$'000	Motor vehicles HK$'000	Moulds HK$'000	Total HK$'000
Accumulated depreciation and impairment – Continued									
At 31st March, 2004	3,770	5,164	–	3,032	18,432	4,497	2,064	26,025	62,984
Charge for the period	264	697	–	677	2,311	1,468	136	3,175	8,728
Written back on disposals	–	–	–	–	(4,978)	(504)	–	(3,305)	(8,787)
At 31st December, 2004	4,034	5,861	–	3,709	15,765	5,461	2,200	25,895	62,925
Net book value									
At 31st December, 2004	11,904	37,423	–	804	15,054	5,516	120	7,698	78,519
At 31st March, 2004	12,168	38,120	–	1,148	16,279	2,400	256	7,156	77,527
At 31st March, 2003	12,520	39,705	–	1,794	18,421	2,510	437	8,263	83,650
At 31st March, 2002	12,873	40,707	10,100	2,496	24,902	3,281	713	13,162	108,234

Notes:

(i) The Group's interests in leasehold land and buildings are situated in Hong Kong and held under medium term leases. Leasehold land and buildings were pledged as part of collateral for banking facilities granted to the Group (*note 23*).

(ii) Land and buildings in the PRC represent lump sum lease payments for the use of two parcels of collectively-owned land and the construction costs and incidental costs incurred by the Group in erecting buildings on these parcels of land.

In March 1992, Kenford HK had signed a factory investment agreement with 寶安縣新安鎮鳳凰崗經濟發展公司 (Baoan Country Xinan Town Fenghuang Gang Economic Development Company) for the lease of the collectively-owned land and construction of the factory premises in Shenzhen. Such agreement lasts for a period of 20 years and will expire in 2012.

In March 1995, Kenford HK had signed a land use right agreement with 東莞市常平鎮霞坑經濟聯合社 (Dongguan City, Changping Town, Xiakeng Economic Corporation Commune) for the lease of the collectively-owned land in Dongguan. Such agreement lasts for a period of 50 years and will expire in 2045. The construction of the DG Kenford factory commenced in 1997 on this piece of collectively-owned land in Dongguan.

Following the complete relocation of the production facilities from the Shenzhen Processing Factory to the DG Kenford Factory, the Group has terminated its processing arrangement under the Shenzhen Processing Agreement in April 2003. The land and buildings in Shenzhen and their respective carrying value of approximately HK$583,000 at the time of the termination were fully impaired in the financial year 2004.

11. PROPERTY, PLANT AND EQUIPMENT – Continued

In respect of the land and buildings in Dongguan, in November 2003, the Group nominated a related party, DG Kario, to submit an application for the state-owned land use right and the ownership of the building constructed therein. DG Kario has acquired the state-owned land use right certificate in May 2004, and thereafter in December 2004, DG Kario has further acquired the legal title to the buildings constructed therein.

(iii) The investment properties are situated in Hong Kong and are held by Union Nice and Smart Host, the then subsidiaries, which were disposed of by the Group in March 2003. The investment properties were revalued by B.I. Appraisals Limited, Registered Professional Surveyor, at open market value at 31st March, 2001, 31st March, 2002 and 31st March, 2003. B.I. Appraisals Limited is not connected with the Group.

The net book values of property, plant and equipment held by the Group under finance leases are summarised as follows:

	Plant and Machinery	Fixtures, furniture and equipment	Motor vehicles	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
At 31st December, 2004	6,097	1,243	36	7,376
At 31st March, 2004	7,048	686	143	7,877
At 31st March, 2003	8,656	227	286	9,169
At 31st March, 2002	9,479	303	429	10,211

12. INTERESTS IN ASSOCIATES

	31st March, 2002	31st March, 2003	31st March, 2004	31st December, 2004
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Share of net assets/(liabilities)	1	(11)	–	–
Amounts due from associates	77	574	–	–
	78	563	–	–

(i) The above amounts due from associates are unsecured, interest-free and with no fixed repayment terms.

(ii) Kario HK and Unix HK were two associates established by Kenford HK in December 2001 and September 2000, respectively. Kenford HK disposed of its entire 50% interests in Kario HK and Unix HK to a senior officer, Mr. Lam Wai Hung, the younger brother of a director, Mr. Lam Wai Ming, on 31st March, 2003 and 31st December, 2003, respectively. Since then, both Kario HK and Unix HK became related parties to the Group.

Particulars of the then principal associated companies are as follows:

Name	Date of incorporation	Place of incorporation/ registration and operation	Equity interest attributable to the company	Principal activities
Unix Electronics (HK) Company Limited	6th September, 2000	Hong Kong	50%	Trading of electrical household appliances
Kario Company Limited	21st December, 2001	Hong Kong	50%	Investment holding and trading

13. DEFERRED TAX

The components of deferred tax assets and liabilities recognised in the combined balance sheets and the movement during the Relevant Audited Periods are as follows:

	Accelerated depreciation allowances	Losses	Total
	HK$'000	*HK$'000*	*HK$'000*
At 1st April, 2001	5,000	(1,000)	4,000
Charge to income statement	640	102	742
At 31st March, 2002	5,640	(898)	4,742
At 1st April, 2002	5,640	(898)	4,742
Charge/(Credit) to income statement	(3,662)	898	(2,764)
At 31st March, 2003	1,978	–	1,978
At 1st April, 2003	1,978	–	1,978
Charge to income statement	756	–	756
At 31st March, 2004	2,734	–	2,734
At 1st April, 2004	2,734	–	2,734
Charge to income statement	–	–	–
At 31st December, 2004	2,734	–	2,734

Deferred tax assets and liabilities are netted when the taxes relate to the same taxation authority and where offsetting is allowed.

For the year ended 31st March, 2002, the Group has unrecognised net deferred tax assets, related to two subsidiaries that were disposed of in March 2003, amounted to approximately HK$469,000. The net deferred tax assets are not recognised since it is not probable that taxable profit will be available against which deductible temporary difference can be utilised.

For the nine months ended 31st December, 2004, the Group has unrecognised net deferred tax liabilities amounted to approximately HK$304,000. No provision for deferred tax liabilities has been recognised in the financial statements as the amount involved is insignificant.

14. INVENTORIES

		31st March,		31st December,
	2002	2003	2004	2004
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Raw materials	25,212	25,959	34,426	38,196
Work in progress	2,957	2,301	3,466	9,259
Finished goods	8,532	16,022	15,701	15,546
	36,701	44,282	53,593	63,001
Provision for obsolescence	–	(2,527)	(2,726)	(2,653)
	36,701	41,755	50,867	60,348

Included in raw materials at the end of each of the Relevant Audited Periods, are inventories of approximately HK$Nil, HK$1,935,000, HK$2,188,000 and HK$2,124,000 respectively, stated net of a provision, made in order to state these inventories at the lower of their cost and estimated net realisable value.

Included in finished goods at the end of each of the Relevant Audited Periods, are inventories of approximately HK$Nil, HK$Nil, HK$19,000 and HK$18,000 respectively, stated net of a provision, made in order to state these inventories at the lower of their cost and estimated net realisable value.

15. ACCOUNTS AND BILLS RECEIVABLE

	31st March, 2002	31st March, 2003	31st March, 2004	31st December, 2004
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Accounts receivable	2,982	15,130	20,743	30,870
Bills receivable	8,538	3,498	5,966	6,487
	11,520	18,628	26,709	37,357

In general, the credit terms granted by the Group ranged from 14 to 90 days. The aging analysis of accounts receivable is as follows:

	31st March, 2002	31st March, 2003	31st March, 2004	31st December, 2004
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Aged:				
0 – 60 days	717	6,849	17,291	27,622
61 – 120 days	662	5,148	1,732	1,958
121 – 365 days	592	2,061	719	449
> 365 days	1,011	1,072	1,001	841
	2,982	15,130	20,743	30,870

The maturity of bills receivable is generally between one to three months.

16. AMOUNTS DUE FROM DIRECTORS/RELATED COMPANIES

(a) Particulars of loans to directors disclosed pursuant to Section 161B of the Hong Kong Companies Ordinance are as follows:

	31st March,				31st December,
	2001	**2002**	**2003**	**2004**	**2004**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Mr. Tam Chi Sang	10,208	13,816	18,611	–	–
Mr. Lam Wai Ming	11,363	15,437	20,390	–	–
Mr. Chan Kwok Tung	–	–	–	–	–
	21,571	29,253	39,001	–	–

	Maximum loans outstanding during the year ended 31st March,			Maximum loan outstanding during the nine months ended 31st December,
	2002	**2003**	**2004**	**2004**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Mr. Tam Chi Sang	13,945	18,611	27,546	–
Mr. Lam Wai Ming	15,437	20,390	28,765	–
Mr. Chan Kwok Tung	–	–	–	–

(i) The above amounts due from directors mainly represent non-trade fund advances to directors. These amounts are unsecured, interest-free and with no fixed repayment terms.

(ii) Mr. Lam Wai Ming and Mr. Tam Chi Sang are also shareholders of the Group.

16. AMOUNTS DUE FROM DIRECTORS/RELATED COMPANIES – Continued

(b) Particulars of loans to companies controlled by directors disclosed pursuant to Section 161B of the Hong Kong Companies Ordinance are as follows:

	31st March,				31st December,
	2001	**2002**	**2003**	**2004**	**2004**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Banne International Limited	669	582	588	–	–
Great Incentive Limited	–	–	5	–	–
Smart Host	–	–	6,059	–	–
Union Nice	–	–	5,557	–	–
Unix HK	–	–	–	–	–
Kario HK	–	–	5,561	10,338	13,148
DG Kario	–	–	–	–	367
	669	582	17,770	10,338	13,515

	Maximum outstanding balances during the year ended 31st March,			Maximum outstanding balance during the nine months ended 31st December,
	2002	**2003**	**2004**	**2004**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Banne International Limited	677	588	595	–
Great Incentive Limited	–	5	10	–
Smart Host	–	6,059	6,059	–
Union Nice	–	5,557	5,557	–
Unix HK	–	–	575	–
Kario HK	–	5,561	10,338	13,148
DG Kario	–	–	–	367

(i) The amounts due from Kario HK represent commission receivables and non-trade fund advances. These amounts are unsecured, interest-free and with no fixed repayment terms.

16. AMOUNTS DUE FROM DIRECTORS/RELATED COMPANIES – Continued

(ii) The amounts due from DG Kario represent land premium paid on behalf of DG Kario for the acquisition of the land use right of a piece of vacant land of about 6,390 sq.m situated adjacent to DG Kario's existing factory in Dongguan. This amount is unsecured, interest-free and with no fixed repayment terms.

(iii) Amounts due from other related companies mainly represent non-trade fund advances. These amounts are unsecured, interest-free and repayable on demand, except for that of Unix HK. The balances with Unix HK are trade receivables incurred from normal sales with the Group and repayment terms are L/C at sight.

(iv) Mr. Lam Wai Ming and Mr. Tam Chi Sang are also directors of all of the above related companies.

Details of the related party transactions are set out in Note 30.

17. AMOUNTS DUE TO DIRECTORS/A RELATED COMPANY

(a) Amounts due to directors

		31st March,			31st December,
	2001	**2002**	**2003**	**2004**	**2004**
	HK\$'000	*HK\$'000*	*HK\$'000*	*HK\$'000*	*HK\$'000*
Mr. Tam Chi Sang	–	1,493	–	–	–
Mr. Lam Wai Ming	–	1,493	–	–	–
Mr. Chan Kwok Tung	–	–	–	–	–
	–	2,986	–	–	–

17. AMOUNTS DUE TO DIRECTORS/A RELATED COMPANY – Continued

(i) The above amounts due to directors mainly represent loans from directors. These amounts are unsecured, interest-free and with no fixed repayment terms.

(ii) Mr. Lam Wai Ming and Mr. Tam Chi Sang are also shareholders of the Group.

(b) Amount due to a related company

		31st March,		31st December,
	2002	**2003**	**2004**	**2004**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
DG Kario	–	–	943	–

(i) The above amount mainly represent expense reimbursement of electricity and wages payable to DG Kario. This amount is unsecured, interest-free and with no fixed repayment terms.

(ii) Mr. Lam Wai Ming and Mr. Tam Chi Sang are also directors of DG Kario.

18. SUPPLEMENTAL INFORMATION TO COMBINED CASH FLOW STATEMENTS

(a) Disposal of subsidiaries:

	Year ended 31st March,			Nine months ended 31st December,	
	2002	**2003**	**2004**	**2004**	**2003**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
					(Unaudited)
Property, plant and equipment	–	8,080	–	–	–
Deposit, prepayments and other receivables	–	19	–	–	–
Cash and bank balances	–	105	–	–	–
Other payables and accrued expenses	–	(73)	–	–	–
Borrowing – due within one year	–	(451)	–	–	–
Borrowing – due after one year	–	(13,582)	–	–	–
Amounts due to related companies	–	(11,616)	–	–	–
Amounts due to directors	–	(2,986)	–	–	–
	–	(20,504)	–	–	–
Gain on disposal	–	20,504	–	–	–
Total consideration *(note)*	–	–	–	–	–
Satisfied by:					
Set off with amounts due from directors	–	–	–	–	–

Note: The sales consideration was agreed at a nominal consideration of HK$4.

18. SUPPLEMENTAL INFORMATION TO COMBINED CASH FLOW STATEMENTS – Continued

Analysis of the net outflow of cash and cash equivalents in respect of the disposals of interests in subsidiaries:

	Year ended 31st March,			Nine months ended 31st December,	
	2002	**2003**	**2004**	**2004**	**2003**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
					(Unaudited)
Cash and bank balances disposed of	–	(105)	–	–	–

(b) Analysis of the balances of cash and cash equivalents is set out below:

	31st March,			31st December,
	2002	**2003**	**2004**	**2004**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Cash and bank balances	3,096	5,295	30,020	135,261
Time deposits at bank	9,600	17,881	–	–
	12,696	23,176	30,020	135,261
Bank overdrafts	(197)	(1,736)	–	–
	12,499	21,440	30,020	135,261

(c) Major non-cash transactions

During each of the three years ended 31st March, 2004 and nine months ended 31st December, 2004, the Group acquired property, plant and equipment for approximately HK$2,560,000, HK$Nil, HK$351,000 and HK$880,000 respectively, which were settled through finance lease agreements.

18. SUPPLEMENTAL INFORMATION TO COMBINED CASH FLOW STATEMENTS – Continued

(c) Major non-cash transactions – Continued

During the year ended 31st March, 2004, an interim dividend of HK$8,000 per share, totaling HK$80,000,000 was declared by Kenford HK. Approximately HK$62,571,000 of the dividend was offset against balance due from the directors, who are also shareholders of the Group, and the balance of approximately HK$17,429,000 remained outstanding as at 31st March, 2004. During the nine months ended 31st December, 2004, a special dividend of HK$1,000 per share, totaling HK$10,000,000 was declared by Kenford HK, which has caused the total dividend payable to increase to approximately HK$27,429,000. Approximately HK$17,562,000 of the balance was offset against balance due from directors resulted from non-trade advances to directors during the period. The residual dividend payable as at 31st December, 2004 became approximately HK$9,867,000.

(d) Increase in investment and disposal of an associate

During the year ended 31st March, 2004, an associate of Kenford HK, namely Unix HK has issued further shares, and accordingly, Kenford HK has acquired these newly issued shares of Unix HK. However, in the same financial year and prior to the year end, all equity interests in Unix HK have been fully disposed of at par value to a senior officer, Mr. Lam Wai Hung, the younger brother of Mr. Lam Wai Ming.

19. ACCOUNTS AND BILLS PAYABLE

In general, the credit terms granted by supplies ranged from 30 to 120 days. The aging analyses of accounts and bills payable are as follows:

	31st March,			31st December,
	2002	**2003**	**2004**	**2004**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Aged:				
0 – 60 days	15,214	20,205	25,664	38,173
61 – 120 days	13,263	6,077	8,550	27,387
121 – 365 days	16,213	7,488	3,423	5,746
> 365 days	744	1,171	364	312
	45,434	34,941	38,001	71,618

The maturity of bills payable is generally within one month.

20. BORROWINGS

	31st March, 2002	31st March, 2003	31st March, 2004	31st December, 2004
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Secured borrowings comprises:				
Trust receipt loans	20,401	39,135	46,816	92,284
Bank loans, secured	46,104	28,725	22,868	36,715
	66,505	67,860	69,684	128,999

The maturity profile of the above borrowings is as follows:

	31st March, 2002	31st March, 2003	31st March, 2004	31st December, 2004
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Within one year	31,037	51,965	61,843	120,647
In the second year	9,365	8,054	5,620	3,775
In the third to fifth years, inclusive	26,103	7,841	2,221	4,577
	66,505	67,860	69,684	128,999
Amount due within one year included in current liabilities	(31,037)	(51,965)	(61,843)	(120,647)
	35,468	15,895	7,841	8,352

The bank loans are secured by the properties of Kenford HK, personal guarantees executed by the shareholders Mr. Lam Wai Ming and Mr. Tam Chi Sang and a pledge of bank deposits.

21. OBLIGATIONS UNDER FINANCE LEASES

At the end of each of the Relevant Audited Periods, the Group's obligations under finance leases were payable as follows:

	31st March, 2002		
	Present value of the minimum lease payments	Interest expense relating to future periods	Total minimum lease payments
	HK$'000	*HK$'000*	*HK$'000*
Within one year	4,106	362	4,468
In the second year	2,683	152	2,835
In the third to fifth years, inclusive	382	4	386
	7,171	518	7,689
Amount due within one year included in current liabilities	(4,106)	(362)	(4,468)
	3,065	156	3,221

	31st March, 2003		
	Present value of the minimum lease payments	Interest expense relating to future periods	Total minimum lease payments
	HK$'000	*HK$'000*	*HK$'000*
Within one year	1,959	201	2,160
In the second year	1,977	72	2,049
In the third to fifth years, inclusive	314	74	388
	4,250	347	4,597
Amount due within one year included in current liabilities	(1,959)	(201)	(2,160)
	2,291	146	2,437

21. OBLIGATIONS UNDER FINANCE LEASES – Continued

	31st March, 2004		
	Present value of the minimum lease payments	Interest expense relating to future periods	Total minimum lease payments
	HK$'000	*HK$'000*	*HK$'000*
Within one year	2,387	107	2,494
In the second year	741	157	898
In the third to fifth years, inclusive	189	11	200
	3,317	275	3,592
Amount due within one year included in current liabilities	(2,387)	(107)	(2,494)
	930	168	1,098

	At 31st December, 2004		
	Present value of the minimum lease payments	Interest expense relating to future periods	Total minimum lease payments
	HK$'000	*HK$'000*	*HK$'000*
Within one year	1,510	209	1,719
In the second year	557	35	592
In the third to fifth years, inclusive	215	10	225
	2,282	254	2,536
Amount due within one year included in current liabilities	(1,510)	(209)	(1,719)
	772	45	817

The above leasing obligations are secured by the followings:

(a) Leased assets of Kenford HK (*note 11*); and

(b) Joint and several guarantees provided by directors, Mr. Lam Wai Ming and Mr. Tam Chi Sang of the Group for an amount of not less than HK$8.0 million.

21. OBLIGATIONS UNDER FINANCE LEASES – Continued

The personal guarantees provided by directors will be released and replaced by the corporate guarantee by the Company upon the listing of the Company's share on the Stock Exchange.

22. CAPITAL

The Company was incorporated in Cayman Islands on 10th November 2004 and therefore there was no issued share capital of the Company as at 31st March, 2002, 2003 and 2004. For the purpose of the combined balance sheets, the share capital as at 31st March, 2002, 2003 and 2004 represented the amount of paid up capital of Kenford HK, while the combined share capital as at 31st December, 2004 represented the aggregated amount of paid up capital of Kenford HK and Asia Pilot.

23. BANKING FACILITIES

As at 31st December, 2004, the Group's banking facilities of approximately HK$195 million were secured by the following:

a. Fixed deposits placed with banks amounting to approximately HK$6,048,000;

b. Personal guarantees given by directors of the Group, Mr. Lam Wai Ming and Mr. Tam Chi Sang; and

c. Leasehold land and buildings of the Group and related companies, namely V. Link Development Limited and Lightwin Resources Limited.

The personal guarantees provided by directors will be released and replaced by the corporate guarantee by the Company upon the listing of the Company's share on the Stock Exchange.

24. RETIREMENT BENEFITS

The Group operates a defined contribution, Mandatory Provident Fund retirement benefits scheme (the "MPF Scheme") under the Mandatory Provident Fund Schemes Ordinance, for all of its employees in Hong Kong. The Group is required to contribute 5% of the monthly salaries (up to a maximum contribution of HK$1,000) for all Hong Kong based employees to the fund.

The Group's contributions for the Relevant Periods amounted to approximately HK$483,000, HK$418,000, HK$386,000, HK$327,000 and HK$272,000 (unaudited), respectively.

25. CONTINGENT LIABILITIES

(i) As at the balance sheet dates, 31st March, 2002, 31st March, 2003, 31st March, 2004 and 31st December, 2004, the Group had contingent liabilities in respect of bills discounted to banks amounting to approximately HK$8.8 million, HK$14.9 million, HK$9.5 million and HK$19.1 million, respectively.

(ii) A High Court action was commenced by WIK Far East Limited ("WIK") against a subsidiary of the Group on 27th April, 2004 in respect of alleged infringements of a patent in respect of retractable brushes.

The Directors have confirmed that no settlement had been reached by the parties and no judgements on the quantum of damages had been made against the Group in respect of the legal action. The Group has sought legal advice from its legal counsel on the impact of the claim.

According to the legal counsel, given that the trial has not yet commenced and the parties are still at a pre-mature stage of the Litigation, and in the absence of any indication as to how WIK would like to proceed with its claim, it would not be possible to quantify reliably the likely potential damages and cost to be incurred by the Group in the event that the subsidiary of the Group fails in its defence to the claim of patent infringement in the Litigation. Assuming that WIK will claim for damages for loss of profits or for accounts of profits, the Directors are of the view that the quantum of the ultimate cost and damages (if any) to be incurred by the Group will not have a material adverse impact on the Group's financial position.

In the event that a liability has arisen from the Litigation, the controlling shareholders have jointly and severally agreed and undertaken to indemnify the Group from and against any of such liability.

26. CAPITAL COMMITMENTS

		31st March,		31st December,
	2002	**2003**	**2004**	**2004**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Commitment for acquisition of plant and equipment:				
Contracted for but not provided in the financial statements	101	1,251	2,682	4,395

27. LEASE ARRANGEMENTS

(I) During the Relevant Periods, the Group paid operating lease rentals in respect of land and buildings as follows:

	Year ended 31st March,			Nine months ended 31st December,	
	2002	**2003**	**2004**	**2004**	**2003**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
					(Unaudited)
Minimum lease payments	–	–	17	30	9

At the end of each of the Relevant Audited Periods, the Group has future minimum lease payments under non-cancellable operating leases which are due for payment as follows:

	As at 31st March,			As at 31st December,
	2002	**2003**	**2004**	**2004**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Within one year	–	–	12	13
In the second to fifth years inclusive	–	–	–	–
	–	–	12	13

(II) During the Relevant Periods, the Group has received operating lease rental in respect of investment properties as follows:

	Year ended 31st March,			Nine months ended 31st December,	
	2002	**2003**	**2004**	**2004**	**2003**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
					(Unaudited)
Minimum lease income	316	252	–	–	–

27. LEASE ARRANGEMENTS – Continued

At the end of each of the Relevant Periods, the Group has future minimum lease payments under non-cancellable operating leases which are due for receipts as follows:

		31st March,		31st December,
	2002	2003	2004	2004
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Within one year	18	–	–	–
In the second to fifth years inclusive	–	–	–	–
	18	–	–	–

28. NET ASSETS OF THE COMPANY

The Company was incorporated on 10th November, 2004. On the basis set out in Section A above, the net assets of the Company as at 31st December, 2004 would have been HK$108,089,000 representing mainly its investments in subsidiaries.

29. DISTRIBUTABLE RESERVE

As at 31st December, 2004, the Company has not yet commenced operation and hence there were no reserves available for distribution to the shareholders of the Company at that date.

30. RELATED PARTY TRANSACTIONS

In addition to the transactions and balances set out in notes 16, 17, 23 and 25 above, the Group has the following material related party transactions during the Relevant Periods:

(a) Disposal of plant and machinery

During the year ended 31st March, 2003, Kenford HK entered into a sales and purchases agreement to dispose of certain machineries at a consideration of approximately HK$1,132,000 to a related party, Kario HK (its then associated company). Mr. Tam Chi Sang, Mr. Lam Wai Ming and Mr. Chan Kwok Tung are directors and shareholders of Kario HK. The directors confirmed that the consideration was based on mutual agreement between both parties after taking into consideration the then market price of new machineries and the status and working condition of the individual machineries disposed of. This resulted in a gain on disposal in the books of Kenford HK amounting to approximately HK$568,000.

30. RELATED PARTY TRANSACTIONS – Continued

(b) Disposal of subsidiaries and associates

On 31st March, 2003, Kenford HK disposed of its entire 100% interests in both of Union Nice and Smart Host at par value to Mr. Lam Wai Ming and Mr. Tam Chi Sang equally for a total consideration of HK$2 and HK$2, respectively. This resulted in an aggregate gain on disposals of approximately HK$20,504,000.

On 31st March, 2003, Kenford HK disposed of its entire 50% interests in Kario HK at par value to a senior officer, Mr. Lam Wai Hung for a consideration of HK$1. This resulted in an aggregate gain on disposals of approximately HK$790,000.

On 31st December, 2003, Kenford HK disposed of its entire 50% interests in Unix HK at par value to Mr. Lam Wai Hung for a consideration of HK$1,000,000. This resulted in an aggregate gain on disposals of approximately HK$22,000.

(c) Sales, purchases, commissions, consultancy fee and reimbursement of expenses

		Year ended 31st March,			Nine months ended 31st December,	
		2002	2003	2004	2004	2003
	Notes	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
						(Unaudited)
Sales to:						
Unix HK	*(i)*	7,429	8,774	3,055	–	3,055
Kario HK	*(i)*	–	–	–	50	–
		7,429	8,774	3,055	50	3,055
Purchases from:						
Kario HK	*(i)*	–	–	540	3,289	540
Consultancy fees paid to:						
V. Link Development Limited	*(ii)*	1,800	–	–	–	–
Lightwin Resources Limited	*(ii)*	1,800	–	–	–	–
		3,600	–	–	–	–

30. RELATED PARTY TRANSACTIONS – Continued

(c) Sales, purchases, commissions, consultancy fee and reimbursement of expenses – Continued

		Year ended 31st March,			Nine months ended 31st December,	
		2002	2003	2004	2004	2003
	Notes	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
						(Unaudited)
Commissions paid to:						
Banne International Limited	*(iii)*	95	–	–	–	–
Bradly International Limited	*(iii)*	–	158	–	–	–
		95	158	–	–	–
Commissions received from:						
Unix HK	*(iv)*	170	325	80	–	–
DG Kario	*(iv)*	–	–	3,703	2,563	3,223
Kario HK	*(iv)*	–	1,574	–	–	-
		170	1,899	3,783	2,563	3,223
Reimbursement of electricity and wages expenses:						
DG Kario	*(v)*	–	–	943	1,108	791

30. RELATED PARTY TRANSACTIONS – Continued

(c) Sales, purchases, commissions, consultancy fee and reimbursement of expenses – Continued

Notes:

(i) Sales made to Unix HK and Kario HK were determined on a cost-plus basis. Purchases from Kario HK were determined at terms mutually agreed by both parties, which were comparable to those similar products sourced from other third party suppliers by the Group.

(ii) Consultancy fees paid to V. Link Development Limited and Lightwin Resources Limited were mainly for the provision of secretarial, and managerial services to the Group. The consultancy fees were determined on a mutually agreed basis of HK$150,000 per month. Mr. Lam Wai Ming is the beneficial owner of V. Link Development Limited while Mr. Tam Chi Sang is the beneficial owner of Lightwin Resources Limited.

(iii) Commissions paid to Banne International Limited and Bradly International Limited were for the leasing of moulds and provision of consultancy and agency services, respectively. The commissions were determined on a mutually agreed basis. Mr. Tam Chi Sang and Mr. Lam Wai Ming are both the beneficial owners of Banne International Limited while Mr. Lam Wai Ming is the beneficial owner of Bradly International Limited.

(iv) Commissions received from Unix HK, Kario HK and DG Kario were for the introduction and referral of business opportunities and for rendering of overall management support. The commission received from Unix HK was determined at HK$0.5 per unit of product sold to customers. The commissions received from Kario HK and DG Kario were determined at 15% to 25% on the gross selling price (including value added tax) of goods sold to a major customer introduced by Kenford HK.

(v) Reimbursement of electricity and wages expenses to DG Kario was determined on a cost basis.

In the opinion of the directors, the above related party transactions were conducted in normal commercial terms in the ordinary course of the Group's business.

The directors confirmed that except for items involving Kario HK and DG Kario, all of the above transactions will be discontinued after the listing of the Company's Shares on the Stock Exchange.

31. ULTIMATE HOLDING COMPANY

The directors consider the ultimate holding company at 31st December, 2004 to be Beaute Inc., a company incorporated in the BVI.

G. DIRECTORS' REMUNERATION

Save as disclosed herein, no remuneration is payable in respect of the Relevant Periods referred to in this report by the Group to the directors of the Company. Under the arrangements currently in force, the estimated amount of directors' fees and other emoluments, excluding discretionary bonuses, payable to the directors of the Company for the year ended 31st March, 2005 will be approximately HK$3.9 million.

H. SUBSEQUENT EVENTS

The following significant events took place subsequent to 31st December, 2004:

(a) The companies now comprising the Group underwent the Reorganisation in preparation for the listing of shares of the Company on the Main Board of The Stock Exchange of Hong Kong Limited. Details are set out in the section headed "Corporate reorganisation" in Appendix VIII to the Prospectus.

(b) On 29th April, 2005, shareholders' resolutions were passed to effect the changes in the Company's share capital as described in the paragraph headed "Changes in share capital of the Company" in Appendix VIII to the Prospectus.

(c) On 22nd March, 2005, the Directors declared a special dividend in favour of the existing shareholders in the amount of HK$30 million.

I. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared by the Group in respect of any periods subsequent to 31st December, 2004.

Yours faithfully,

BDO McCabe Lo & Company
Certified Public Accountants
Hong Kong

Chua Suk Lin Ivy
PC No. P02044

PCP CPA Limited
Certified Public Accountants
Hong Kong

The following is the text of a report, prepared for the purpose of incorporation in this prospectus, received from the joint reporting accountants of the Company, BDO McCabe Lo & Company and PCP CPA Limited, Certified Public Accountants, Hong Kong.

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31st May, 2005

The Directors
Kenford Group Holdings Limited
Kario Company Limited
Partners Capital International Limited
SinoPac Securities (Asia) Limited

Dear Sirs,

We set out below our report on the financial information relating to Kario Company Limited ("Kario HK") and its subsidiary (collectively the "Kario Group") for each of the three years ended 31st March, 2002, 2003, 2004 and the nine months ended 31st December, 2004 (the "Relevant Audited Periods") together with the nine months ended 31st December, 2003 (collectively the "Relevant Periods") for inclusion in the prospectus of Kenford Group Holdings Limited (the "Company") dated 31st May, 2005 (the "Prospectus").

Kario HK was incorporated in Hong Kong on 21st December, 2001 with limited liability under the Hong Kong Companies Ordinance and its principal activities are investment holding and trading of electrical components. As at the date of this report, Kario HK had the following subsidiary.

Name of company	Country/date of establishment	Registered capital	Equity interests attributable to Kario HK	Principal activities
東莞家利來電器有限公司 Dongguan Kario Electrical Appliance Company Limited ("DG Kario")	The People's Republic of China 21st March, 2002	RMB4,240,000 (equivalent to HK$4,000,000)	100%	Manufacturing and selling of electrical household appliances

No audited financial statements have been prepared by Kario HK for the period from 21st December, 2001 (date of incorporation) to 31st March, 2002 as it has not been involved in any significant business transactions during that period. The first statutory consolidated financial statements of Kario HK were audited by C.W. Leung & Co. covering the period from 21st December, 2001 (date of incorporation) to 31st March, 2003. BDO McCabe Lo & Company acted as the auditors of Kario HK for the year ended 31st March, 2004.

DG Kario which was established and has been operating in the People's Republic of China (the "PRC") has adopted 31st December as its financial year end date and its financial statements are prepared in accordance with the relevant PRC accounting rules and regulations applicable to enterprises with foreign investment for statutory reporting purpose. The statutory financial statements of DG Kario for the period from 21st March, 2002 (date of establishment) to 31st December, 2002 and for the year ended 31st December, 2003 were audited by 東莞市協誠會計師事務所 (Dongguan City Xie Cheng Certified Public Accountants), while the statutory financial statements of DG Kario for the year ended 31st December, 2004 was audited by 東莞市常信會計師事務所 (Dongguan City Changxin Certified Public Accountants).

For the purpose of this report, we have carried out appropriate audit procedures in accordance with Statements of Auditing Standards issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") in respect of the audited consolidated financial statements of Kario HK during the Relevant Audited Periods which were prepared in accordance with the accounting principles generally accepted in Hong Kong.

We have examined the audited consolidated financial statements or, where appropriate, the management accounts of the Kario Group for the Relevant Audited Periods. Our examination was made in accordance with the Auditing Guideline "Prospectuses and the Reporting Accountant" as recommended by the HKICPA.

The financial information set out in Sections B to H below (the "Financial Information") has been prepared from the audited consolidated financial statements of the Kario Group, after making such adjustments as we considered appropriate, on the basis set out in Section A below.

The directors of the respective companies of the Kario Group are responsible for preparing financial statements. In preparing these financial statements which give a true and fair view, it is fundamental that appropriate accounting policies are selected and applied consistently that judgments and estimates are made. The directors are also responsible for the preparation of the Financial Information and the contents of the Prospectus in which this report is included.

It is our responsibility to form an independent opinion on the Financial Information, based on our audit, and to report our opinion to you.

In our opinion, on the basis of presentation set out in Section A below, the Financial Information gives, for the purpose of this report, a true and fair view of the consolidated results and cash flows of the Kario Group for the Relevant Audited Periods and the consolidated balance sheets of the Kario Group and balance sheets of Kario HK as at 31st March, 2002, 31st March, 2003, 31st March, 2004 and 31st December, 2004.

Review opinion on the financial information for the nine months ended 31st December, 2003

The consolidated income statement, consolidated cash flow statement and consolidated statement of changes in equity of the Kario Group for the nine months ended 31st December, 2003, together with the notes thereon, as set out in this report were prepared by the directors from the unaudited management accounts of the Kario Group for the same period, after making such adjustments as we considered appropriate, on the basis set out in Section A below.

For the purpose of this report, we have conducted a review on the financial information of the Kario Group for the nine months ended 31st December, 2003 in accordance with Statement of Auditing Standards 700 "Engagements to review interim financial reports" issued by the HKICPA. A review consists principally of making enquiries of management and applying analytical procedures to the financial information of the Kario Group for the nine months ended 31st December, 2003 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 financial information of the Kario Group for the nine months ended 31st December, 2003.

In our opinion, 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 financial information of the Kario Group for the nine months ended 31st December, 2003.

A. BASIS OF PRESENTATION

The Financial Information, which includes the consolidated income statements, consolidated balance sheets, balance sheets of Kario HK, consolidated cash flow statements and consolidated statements of changes in equity of the Kario Group throughout the Relevant Periods are prepared based on the audited consolidated financial statements for the years ended 31st March, 2002, 2003, 2004 and for the nine months ended 31st December, 2004 and the unaudited financial statements for the nine months ended 31st December, 2003, after making such adjustment as we considered appropriate.

All material intra-group transactions and balances between companies comprising the Kario Group have been eliminated on consolidation.

B. CONSOLIDATED INCOME STATEMENTS

The following is a summary of the consolidated income statements of the Kario Group for the Relevant Periods prepared on the basis set out in Section A above:

		Year ended 31st March,			**Nine months ended 31st December,**	
	Section F Notes	**2002**	**2003**	**2004**	**2004**	**2003**
		HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
						(Unaudited)
Turnover	*2*	–	5,562	14,299	18,145	11,727
Cost of sales		–	(5,039)	(11,667)	(13,226)	(9,681)
Gross profit		–	523	2,632	4,919	2,046
Other revenue	*3*	–	9	18	11	13
Selling and distribution expenses		–	(1,614)	(3,814)	(2,631)	(3,299)
General and administrative expenses		(12)	(356)	(994)	(850)	(529)
(Loss)/profit from operations and before taxation	*5*	(12)	(1,438)	(2,158)	1,449	(1,769)
Taxation	*7*	–	–	(26)	(239)	(31)
Net (loss)/profit attributable to shareholders		(12)	(1,438)	(2,184)	1,210	(1,800)
Dividends	*8*	–	–	–	–	–

C. CONSOLIDATED BALANCE SHEETS AND COMPANY BALANCE SHEETS

The following is a summary of the consolidated balance sheets of the Kario Group for the Relevant Audited Periods prepared on the basis set out in Section A above:

(a) Consolidated balance sheets

			31st March,		31st December,
	Section F	**2002**	**2003**	**2004**	**2004**
	Notes	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Non-current assets					
Property, plant and equipment	*11*	–	1,387	1,346	3,723
Current assets					
Inventories	*12*	–	3,667	2,783	2,258
Accounts receivable	*13*	–	1,150	2,354	7,673
Deposits, prepayments and other receivables		–	807	229	1,334
Amounts due from shareholders	*14*	1	10	–	5
Cash and bank balances	*15*	–	3,032	3,451	4,062
		1	8,666	8,817	15,332
Current liabilities					
Accounts payable	*16*	–	3,300	2,978	5,414
Accruals and other payables		–	2,632	1,388	2,275
Amount due to a shareholder	*17*	12	–	–	–
Amount due to a related company	*17*	–	5,561	9,395	13,515
Taxation payable		–	–	26	265
		12	11,493	13,787	21,469
Net current liabilities		(11)	(2,827)	(4,970)	(6,137)
Net liabilities		(11)	(1,440)	(3,624)	(2,414)
Capital and reserves					
Capital	*18*	1	10	10	10
Accumulated losses		(12)	(1,450)	(3,634)	(2,424)
		(11)	(1,440)	(3,624)	(2,414)

The following is a summary of balance sheets of Kario HK for the Relevant Audited Periods prepared on the basis set out in Section A above:

(b) Balance sheets of Kario HK

			31st March,		31st December,
	Section F	**2002**	**2003**	**2004**	**2004**
	Notes	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Non-current assets					
Interest in a subsidiary	*10*	–	3,939	8,086	10,821
Property, plant and equipment	*11*	–	3	2	2
		–	3,942	8,088	10,823
Current assets					
Deposits, prepayments and other receivables		–	–	183	952
Amounts due from shareholders	*14*	1	10	–	5
Cash and bank balances	*15*	–	1	537	2,165
		1	11	720	3,122
Current liabilities					
Accounts payable	*16*	–	–	–	782
Accruals and other payables		–	71	171	331
Amount due to a shareholder	*17*	12	–	–	–
Amount due to a related company	*17*	–	5,561	10,338	13,148
Taxation payable		–	–	26	265
		12	5,632	10,535	14,526
Net current liabilities		(11)	(5,621)	(9,815)	(11,404)
Net liabilities		(11)	(1,679)	(1,727)	(581)
Capital and reserves					
Capital	*18*	1	10	10	10
Accumulated losses		(12)	(1,689)	(1,737)	(591)
		(11)	(1,679)	(1,727)	(581)

D. CONSOLIDATED CASH FLOW STATEMENTS

The following is a summary of the consolidated cash flow statements of the Kario Group for the Relevant Periods prepared on the basis set out in Section A above:

	Year ended 31st March,			Nine months ended 31st December,	
	2002	2003	2004	2004	2003
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000 (Unaudited)*
Cash flows from operating activities					
(Loss)/profit before taxation	(12)	(1,438)	(2,158)	1,449	(1,769)
Adjustments for:					
Depreciation of property, plant and equipment	–	75	263	202	124
Interest income	–	(9)	(16)	(8)	(12)
Operating (loss)/profit before changes in working capital	(12)	(1,372)	(1,911)	1,643	(1,657)
(Increase)/decrease in inventories	–	(3,667)	884	525	1,496
Increase in accounts receivable	–	(1,150)	(1,204)	(5,319)	(268)
(Increase)/decrease in deposits, prepayments and other receivables	–	(807)	578	(1,105)	685
(Increase)/decrease in amounts due from shareholders	(1)	(9)	10	(5)	(1)
Increase/(decrease) in accounts payable	–	3,300	(322)	2,436	(217)
Increase/(decrease) in accruals and other payables	–	2,632	(1,244)	887	(1,097)
Increase/(decrease) in amount due to a shareholder	12	(12)	–	–	–
Net cash used in operating activities	(1)	(1,085)	(3,209)	(938)	(1,059)
Cash flows from investing activities					
Purchase of property, plant and equipment	–	(330)	(222)	(528)	(203)
Interest received	–	9	16	8	12
Net cash used in investing activities	–	(321)	(206)	(520)	(191)
Cash flows from financing activities					
Advance from a related company	–	4,429	3,834	2,069	2,285
Proceeds from issue of shares	1	9	–	–	–
Net cash generated from financing activities	1	4,438	3,834	2,069	2,285
Net increase in cash and cash equivalents	–	3,032	419	611	1,035
Cash and cash equivalents at beginning of year/period	–	–	3,032	3,451	3,032
Cash and cash equivalents at end of year/period	–	3,032	3,451	4,062	4,067

E. CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

The following is a summary of the consolidated statements of changes in equity of the Kario Group for the Relevant Periods prepared on the basis set out in Section A above:

	Year ended 31st March,			Nine months ended 31st December,	
	2002	**2003**	**2004**	**2004**	**2003**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
					(Unaudited)
Shareholders' deficit at beginning of year/period	–	(11)	(1,440)	(3,624)	(1,440)
Issue of new shares	1	9	–	–	–
Net (loss)/profit attributable to shareholders	(12)	(1,438)	(2,184)	1,210	(1,800)
Shareholders' deficit at end of year/period	(11)	(1,440)	(3,624)	(2,414)	(3,240)

F. NOTES TO THE FINANCIAL INFORMATION

1. PRINCIPAL ACCOUNTING POLICIES

The Financial Information is prepared under the historical cost convention. At 31st December, 2004, the Kario Group's current liabilities exceeded its current assets by HK$6,137,000 and there was a shareholders' deficit of HK$2,414,000. The Kario Group's beneficial owners have confirmed their intention to provide continual financial support to Kario HK so as to enable Kario HK to meet its liabilities as and when they fall due and to enable Kario HK to continue business for the foreseeable future. Consequently, the directors have prepared the financial statements on a going concern basis.

The principal accounting policies adopted by the Kario Group in the preparation of the Financial Information set out in this report conform with accounting principles generally accepted in Hong Kong and are in accordance with all applicable Hong Kong Financial Reporting Standards (which includes all applicable Statements of Standard Accounting Practice ("SSAPs") and Interpretations) issued by the HKICPA as follows:

a. Basis of consolidation

The consolidated financial statements incorporate the financial statements of Kario HK and enterprises controlled by it (its subsidiaries) made up to balance sheet dates for the Relevant Periods. Control is achieved where Kario HK has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

The results of subsidiaries acquired or disposal of during the Relevant Periods are included in the consolidated income statements from the effective dates of acquisition or up to the effective dates of disposal, as appropriate.

b. Subsidiaries

A subsidiary is an entity in which Kario HK is able to exercise its control on it. Control is achieved where Kario HK has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

c. Revenue recognition

Revenue from goods sold is recognised when title of goods sold has passed to the purchaser, which is at the time of delivery.

Interest income is accrued on a time basis on the principal outstanding at the applicable interest rate.

1. PRINCIPAL ACCOUNTING POLICIES – Continued

d. Income taxes

Income taxes for the period comprise current tax and deferred tax.

Current tax is based on the profit or loss from ordinary activities adjusted for items that are non-assessable or disallowable for income tax purposes and is calculated using tax rates that have been enacted or substantively enacted at the balance sheet date.

Deferred tax arises from temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the corresponding amounts used for tax purposes and is accounted for using the balance sheet liability method. Except for recognised assets and liabilities that affect neither accounting nor taxable profits, deferred tax liabilities are recognised for all temporary differences. Deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Deferred tax is measured at the tax rates expected to apply in the period when the liability is settled or the asset is realised based on tax rates that have been enacted or substantively enacted at the balance sheet date.

Income taxes are recognised in the income statement except when they relate to an item directly recognised to equity in which case the taxes are also directly recognised in equity.

e. Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and impairment losses, if any. The cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to its present working condition and location for its intended use. Expenditure incurred after property, plant and equipment have been put into operation, such as repairs and maintenance and overhaul costs, is normally charged to the income statement in the period in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of the asset, the expenditure is capitalised as an additional cost of the asset.

When property, plant and equipment are sold or retired, their cost, accumulated depreciation and impairment losses eliminated and any gain or loss resulting from their disposal is included in the income statement.

1. PRINCIPAL ACCOUNTING POLICIES – Continued

e. Property, plant and equipment – Continued

Depreciation is provided to write off the property, plant and equipment over their estimated useful lives on a straight-line basis, at the following annual rates:

Land and buildings in the PRC	2% to 5%
Leasehold improvement	20%
Plant and machinery	10%
Furniture, fixtures and equipment	20%
Motor vehicles	20%

f. Inventories

Inventories are stated at the lower of cost and net realisable value.

Cost which comprises direct materials, and where applicable, direct labour costs and those overheads that have been incurred in bringing the inventories to their present location and condition, is calculated on the first-in-first-out method.

Net realisable value represents 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.

g. Impairment

The carrying amounts of the Kario Group's tangible assets are reviewed annually at each balance sheet date to determine whether they have been impaired during the period. Where an asset has been impaired, the recoverable amount of the asset is determined. Where the carrying amount exceeds the recoverable amount, the asset is written down to its recoverable amount. The resultant impairment loss is recognised as an expense in the income statement.

An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. When an impairment loss subsequently reverses, the carrying amount of the asset is increased to the reversed estimate of its recoverable amount, to the extent that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior periods. A reversal of an impairment loss is recognised as income immediately.

h. Cash and cash equivalents

Cash and cash equivalents are carried in the balance sheets at cost. For the purposes of the consolidated cash flow statements, cash and cash equivalents comprise cash on hand and bank overdrafts.

1. PRINCIPAL ACCOUNTING POLICIES – Continued

i. Leases

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Lease payments under operating leases are expensed on a straight-line basis over the accounting periods covered by the lease terms.

j. Employee retirement benefits

The Kario Group does not have any full time employees in Hong Kong.

The employees of DG Kario, a wholly owned subsidiary which operates in the PRC, are required to participate in a defined contribution retirement benefit plan organised by the local municipal government in the PRC, under which both DG Kario and its employees are required to make monthly contributions to the plan calculated as a percentage of the employees' salaries in accordance with the regulation promulgated by the local municipal government. Contributions to these plans are expensed as incurred.

k. Provisions and contingent liabilities

Provisions are recognised for liabilities of uncertain timing or amount when the Kario Group has a legal or constructive obligation arising as a result of a past event, which will probably result in an outflow of economic benefits that can be reasonably estimated. Where the time value of money is material, provisions are stated at present value of the expenditure 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 of economic benefits is remote. Possible obligations, the existence of which 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 of economic benefits is remote.

1. PRINCIPAL ACCOUNTING POLICIES – Continued

l. Foreign currencies

Foreign currency transactions during the period are translated into Hong Kong dollars at the exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated into Hong Kong dollars at the market rates of exchange ruling at that date. All exchange differences are dealt with in the income statement.

Income statement and balance sheet of an overseas subsidiary are translated at the average rates for the period and the rates ruling at the period end date respectively. Exchange differences arising on translation are dealt with in the exchange reserve account.

m. Dividends

Interim dividends are recognised directly as a liability when they are proposed and declared by the directors.

Final dividends proposed by the directors are classified as a separate allocation of retained profits within capital and reserves in the balance sheet. Final dividends are recognised as a liability when they are approved by the shareholders.

n. Related parties

Parties are considered to be related if the Kario Group 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.

o. Segment reporting

A segment is a distinguishable component of the Kario Group that is engaged either in providing products (business segment), or in providing products within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments.

Segment revenue, expenses, results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis to that segment.

1. PRINCIPAL ACCOUNTING POLICIES – Continued

o. Segment reporting – Continued

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

p. Recently issued accounting standards

The HKICPA has issued a number of new and revised Hong Kong Financial Reporting Standards and Hong Kong Accounting Standards ("new HKFRSs"), which are effective for accounting periods beginning on or after 1st January, 2005. The Kario Group has not early adopted these new HKFRSs in the consolidated accounts during the Relevant Periods. The Kario Group has already commenced an initial assessment of the impact of these new HKFRSs and considered that the adoption of these new HKFRSs would not have a significant impact on its results of operations and financial positions.

2. TURNOVER

The Kario Group is principally engaged in the manufacturing and selling of electrical household appliances and trading of electrical components. Turnover represents the net invoiced value of goods sold which is the sole significant category of revenue during the Relevant Periods.

3. OTHER REVENUE

				Nine months ended	
		Year ended 31st March,		**31st December,**	
	2002	**2003**	**2004**	**2004**	**2003**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
					(Unaudited)
Interest income	–	9	16	8	12
Sundry income	–	–	2	3	1
	–	9	18	11	13

4. SEGMENT INFORMATION

Segment information is presented in respect of the Kario Group's business and geographical segments. Business segment information is chosen as the primary reporting format because this is more relevant to the Kario Group in making operating and financial decisions.

(a) Business segments

Throughout the Relevant Periods, the Kario Group has been operating in a single business segment, that is the manufacturing and selling of electrical household appliances and trading of electrical components.

(b) Geographical segments

The Kario Group's revenue is mainly derived from customers located in the PRC. Its business activities are also conducted predominantly in the PRC.

For the years ended 31st March, 2002, 2003 and 2004 and the nine months ended 31st December, 2003, over 90% of the Kario Group's revenue are derived from customers and operations based in the PRC and accordingly, no analysis of the Kario Group's geographical revenue is presented for these years and period.

For the nine months ended 31st December, 2004, sales by locations of customers is analysed as follows:

	HK$'000
PRC (excluding Hong Kong)	14,800
Hong Kong	3,345
	18,145

4. SEGMENT INFORMATION – Continued

(b) Geographical segments – Continued

The following is an analysis of the carrying amount of segment assets and capital expenditure, analysed by the geographical area in which the assets are located:

	Segment assets			
				31st
		31st March,		December,
	2002	2003	2004	2004
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
PRC (excluding Hong Kong)	–	10,039	9,441	15,932
Hong Kong	1	14	722	3,123
	1	10,053	10,163	19,055

	Capital expenditure				
				Nine months ended	
	Year ended 31st March,			31st December,	
	2002	2003	2004	2004	2003
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
					(Unaudited)
PRC (excluding Hong Kong)	–	1,458	222	2,579	204
Hong Kong	–	4	–	–	–
	–	1,462	222	2,579	204

5. (LOSS)/PROFIT FROM OPERATIONS AND BEFORE TAXATION

(Loss)/profit from operations and before taxation is stated after charging:

	Year ended 31st March,			Nine months ended 31st December,	
	2002	**2003**	**2004**	**2004**	**2003**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
					(Unaudited)
Auditors' remuneration	–	20	85	135	60
Cost of inventories sold	–	5,039	11,667	13,226	9,681
Depreciation on property, plant and equipment	–	75	263	202	124
Exchange losses, net	–	2	–	–	–
Staff costs (including directors' emoluments)					
– basic salaries, bonuses, allowance and benefits in kind	–	137	1,557	987	1,169
– retirement benefits scheme contributions	–	3	225	153	167
Provision for obsolete inventories	–	–	502	31	–

6. DIRECTORS' AND SENIOR EXECUTIVES' EMOLUMENTS

(a) Directors' emoluments

No emoluments were paid and payable to directors, including executive and non-executive, of the Kario Group during the Relevant Periods.

There were also no arrangements under which a director waived or agreed to waive any remuneration during the Relevant Periods.

6. DIRECTORS' AND SENIOR EXECUTIVES' EMOLUMENTS – Continued

(b) Five highest paid individuals

The five individuals whose emoluments were the highest in the Kario Group for the Relevant Periods are as follows:

	Year ended 31st March,			Nine months ended 31st December,	
	2002	**2003**	**2004**	**2004**	**2003**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
					(Unaudited)
Directors	–	–	–	–	–
Non-directors	–	84	143	90	97
	–	84	143	90	97

Details of the emoluments of non-directors mentioned above are as follows:

	Year ended 31st March,			Nine months ended 31st December,	
	2002	**2003**	**2004**	**2004**	**2003**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
					(Unaudited)
Salaries, allowances and benefits in kind	–	84	135	85	93
Discretionary bonus	–	–	–	–	–
Retirement benefits scheme contributions	–	–	8	5	4
	–	84	143	90	97

6. DIRECTORS' AND SENIOR EXECUTIVES' EMOLUMENTS – Continued

(b) Five highest paid individuals – Continued

Analysis of emoluments of non-directors by number of individuals and emolument range is as follows:

	Year ended 31st March,			Nine months ended 31st December,	
	2002	**2003**	**2004**	**2004**	**2003**
	Number	*Number*	*Number*	*Number*	*Number*
					(Unaudited)
Nil to HK$1,000,000	–	5	5	5	5

During the Relevant Periods, no emoluments were paid by the companies now comprising the Kario Group to any of the five highest paid individuals as an inducement to join or upon joining the Kario Group or as compensation for loss of offices.

7. TAXATION

The amount of taxation in the consolidated income statements represents:

	Year ended 31st March,			Nine months ended 31st December,	
	2002	**2003**	**2004**	**2004**	**2003**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
					(Unaudited)
Current tax – provision for Hong Kong profits tax	–	–	26	239	31

Hong Kong profits tax has been provided for at the rate of 16%, 16%, 17.5%, 17.5% and 17.5% on the estimated assessable profits less allowable losses brought forward from Kario HK for the Relevant Periods respectively.

Pursuant to the relevant laws and regulations in the PRC, DG Kario, a wholly owned subsidiary of the Kario Group, being a foreign investment enterprise, is subject to income tax rate of 24%. DG Kario is also exempted from enterprise income tax for two years starting from the first year of profitable operations in 2003 after off-setting prior year tax losses, followed by a 50% reduction in the applicable tax rate for the next three years. No provision for PRC enterprise income tax has been made as the subsidiary has been in its second year of tax exemption period.

7. TAXATION – Continued

At the end of each of the Relevant Audited Periods, the Kario Group had unrecognised net deferred tax assets, related to its subsidiary in the PRC, amounted to approximately HK$Nil, HK$356,000, HK$720,000 and HK$45,000 respectively. The net deferred tax assets are not recognised since it is not probable that taxable profit will be available against which deductible temporary difference can be utilised.

The taxation charge for the Relevant Periods can be reconciled to the (loss)/profit per the consolidated income statements as follows:

	Year ended 31st March,			Nine months ended 31st December,	
	2002	**2003**	**2004**	**2004**	**2003**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
					(Unaudited)
(Loss)/profit before taxation	(12)	(1,438)	(2,158)	1,449	(1,769)
Applicable Hong Kong profits tax rate	16%	16%	17.5%	17.5%	17.5%
Tax charge at applicable Hong Kong profit tax rate	(2)	(230)	(377)	254	(310)
Effect of different tax rates of a subsidiary operating in other jurisdiction	–	9	(130)	4	(127)
Tax holiday and concessions	–	(382)	(217)	(60)	(111)
Tax effect of temporary difference not recognised	–	356	720	45	579
Tax effect of utilization of tax losses not previously recognised	–	–	–	(4)	–
Tax effect of expenditure that is not deductible in determining taxable profits	2	247	30	–	–
	–	–	26	239	31

8. DIVIDENDS

No dividend has been paid or declared by Kario HK since its incorporation.

9. EARNINGS PER SHARE

Information of earnings per share is not presented as such information is not meaningful for the purpose of this report.

10. INTEREST IN A SUBSIDIARY

Kario HK

		31st March,		**31st December,**
	2002	**2003**	**2004**	**2004**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Unlisted shares, at cost	–	4,000	4,000	4,000
Amount due from/(to) a subsidiary	–	(61)	4,086	6,821
	–	3,939	8,086	10,821

The amount due from/(to) a subsidiary is unsecured, interest free and has no fixed term of repayment.

Details of the principal subsidiary are as follows:

Name of company	Place of establishment and operation	Equity interests attributable to Kario HK	Principal activities
東莞家利來電器有限公司 (Dongguan Kario Electrical Appliance Company Limited)	The People's Republic of China	100%	Manufacturing and selling of electrical household appliances

11. PROPERTY, PLANT AND EQUIPMENT

The Kario Group

	Land and Buildings in the PRC	Leasehold Improvement	Plant and machinery	Furniture, fixtures, and equipment	Motor vehicles	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Cost						
At 21st December, 2001 (Date of incorporation)	–	–	–	–	–	–
Additions	–	–	–	–	–	–
At 31st March, 2002	–	–	–	–	–	–
Additions	–	–	1,290	42	130	1,462
At 31st March, 2003	–	–	1,290	42	130	1,462
Additions	–	–	–	222	–	222
Transfer	–	–	(41)	41	–	–
At 31st March, 2004	–	–	1,249	305	130	1,684
Additions	2,561	11	–	7	–	2,579
At 31st December, 2004	2,561	11	1,249	312	130	4,263
Accumulated depreciation and impairment						
At 21st December, 2001 (Date of incorporation)	–	–	–	–	–	–
Charge for the period	–	–	–	–	–	–
At 31st March, 2002	–	–	–	–	–	–
Charge for the year	–	–	63	4	8	75
At 31st March, 2003	–	–	63	4	8	75
Charge for the year	–	–	158	68	37	263
Transfer	–	–	(2)	2	–	–
At 31st March, 2004	–	–	219	74	45	338
Charge for the period	40	2	93	47	20	202
At 31st December, 2004	40	2	312	121	65	540
Net book value						
At 31st December, 2004	2,521	9	937	191	65	3,723
At 31st March, 2004	–	–	1,030	231	85	1,346
At 31st March, 2003	–	–	1,227	38	122	1,387
At 31st March, 2002	–	–	–	–	–	–

11. PROPERTY, PLANT AND EQUIPMENT – Continued

The Kario Group – Continued

Notes:

(i) The Kario Group's land and buildings are situated in Dongguan, the PRC and are held under medium term leases. The amounts represent costs (including land premium, legal costs, taxes and consultancy fees) incidental to the acquisition of the certificate for state-owned land and the certificate of real estate ownership for the buildings erected thereon.

(ii) None of the Kario Group's property, plant and equipment was pledged.

Kario HK

	Furniture, fixture, and equipment *HK$'000*
Cost	
At 21st December, 2001 (Date of incorporation)	–
Additions	–
At 31st March, 2002	–
Additions	4
At 31st March, 2003	4
Additions	–
At 31st March, 2004	4
Additions	–
At 31st December, 2004	4
Accumulated depreciation	
At 21st December, 2001 (Date of incorporation)	–
Charge for the period	–
At 31st March, 2002	–
Charge for the year	1
At 31st March, 2003	1
Charge for the year	1
At 31st March, 2004	2
Charge for the period	–
At 31st December, 2004	2
Net book value	
At 31st December, 2004	2
At 31st March, 2004	2
At 31st March, 2003	3
At 31st March, 2002	–

12. INVENTORIES

	31st March, 2002	31st March, 2003	31st March, 2004	31st December, 2004
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Raw materials	–	3,233	2,067	1,494
Work in progress	–	4	503	132
Finished goods	–	430	715	1,165
	–	3,667	3,285	2,791
Provision for obsolescence	–	–	(502)	(533)
	–	3,667	2,783	2,258

All inventories at 31st March, 2003 are carried at cost. At 31st March, 2004 and 31st December, 2004, a specific provision has been made against certain obsolete inventories in full amounting to approximately HK$502,000 and HK$533,000 respectively. All the remaining inventories at 31st March, 2004 and 31st December, 2004 are carried at cost.

13. ACCOUNTS RECEIVABLE

In general, the credit terms granted by the Kario Group ranged from 30 to 105 days. The aging analysis of accounts receivable is as follows:

	31st March, 2002	31st March, 2003	31st March, 2004	31st December, 2004
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Aged:				
0 – 90 days	–	1,142	2,101	7,235
91 – 180 days	–	8	227	429
181 – 270 days	–	–	–	4
271 – 365 days	–	–	17	–
> 365 days	–	–	9	5
	–	1,150	2,354	7,673

14. AMOUNTS DUE FROM SHAREHOLDERS

The amounts due from shareholders are unsecured, interest-free and repayable on demand.

15. SUPPLEMENTAL INFORMATION TO CONSOLIDATED CASH FLOW STATEMENTS

Major non-cash transactions

During the year ended 31st March, 2003, the Kario Group acquired property, plant and equipment amounting to approximately HK$1,132,000 from a related company, Kenford HK. The acquisition was settled by transferring the outstanding sum to the amounts due to Kenford HK.

During the nine months ended 31st December, 2004, the Kario Group incurred incidental costs (including land premium, legal costs, taxes and consultancy fees) of approximately HK$2,051,000 to acquire the certificate for state-owned land in Dongguan and the certificate of real estate ownership for the buildings erected on the land. These costs were paid by Kenford HK on behalf of the Kario Group and the balance was included in the amounts due to Kenford HK.

16. ACCOUNTS PAYABLE

In general, the credit terms granted by suppliers ranged from 30 to 120 days. The aging analysis of accounts payable is as follows:

The Kario Group

		31st March,		**31st December,**
	2002	**2003**	**2004**	**2004**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Aged:				
0 – 90 days	–	3,029	1,893	4,684
91 – 180 days	–	220	1,011	389
181 – 270 days	–	51	42	111
271 – 365 days	–	–	29	58
> 365 days	–	–	3	172
	–	3,300	2,978	5,414

16. ACCOUNTS PAYABLE – Continued

Kario HK

	31st March, 2002	31st March, 2003	31st March, 2004	31st December, 2004
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Aged:				
0 – 90 days	–	–	–	782
91 – 180 days	–	–	–	–
181 – 270 days	–	–	–	–
271 – 365 days	–	–	–	–
> 365 days	–	–	–	–
	–	–	–	782

17. AMOUNTS DUE TO A SHAREHOLDER AND A RELATED COMPANY

The amounts due to a shareholder and a related company are unsecured, interest-free and have no fixed terms of repayment.

18. CAPITAL

	31st March, 2002	31st March, 2003	31st March, 2004	31st December, 2004
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Authorised:				
10,000 shares of HK$1 each	10	10	10	10
Issued and fully paid:				
Number of Ordinary Shares issued	2	10,000	10,000	10,000
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Ordinary Shares of HK$1 each	1	10	10	10

19. RETIREMENT BENEFITS

The Kario Group participates in a defined contribution retirement benefit plan organised by the local municipal government in the PRC. All PRC based employees under the Kario Group are required to make monthly contributions to the plan calculated at 23% of the employees' average monthly salary in the preceding year.

The Kario Group's retirement benefits contributions for the Relevant Periods amounted to approximately HK$Nil, HK$3,000, HK$225,000, HK$153,000 and HK$167,000 (unaudited), respectively. Other than the monthly contributions, the Kario Group has no further obligation for the payment of retirement and other post retirement benefits of its employees.

20. CONTINGENT LIABILITIES

At 31st March, 2002, 31st March, 2003, 31st March, 2004 and 31st December, 2004, the Kario Group and Kario HK had no material contingent liabilities.

21. CAPITAL COMMITMENTS

At 31st March, 2002, 31st March, 2003 and 31st March, 2004, the Kario Group and Kario HK had no material capital commitments. At 31st December, 2004, the Kario Group has committed to pay the 新增建設用地有償使用費 (newly-added construction land usage fee) of approximately HK$193,000 for a land use right of a piece of vacant land of about 6,390 sq.m situated adjacent to its existing factory in Dongguan in respect of its acquisition.

22. LEASE ARRANGEMENTS

During the Relevant Periods, the Kario Group had paid operating lease rental in respect of land and buildings as follows:

	Year ended 31st March,			Nine months ended 31st December,	
	2002	**2003**	**2004**	**2004**	**2003**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
					(Unaudited)
Minimum lease payments	–	57	113	85	85

22. LEASE ARRANGEMENTS – Continued

At the end of each of the Relevant Audited Periods, the Kario Group had future minimum lease payments under non-cancellable operating leases which are due for payment as follows:

		31st March,		31st December,
	2002	**2003**	**2004**	**2004**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Within one year	–	113	113	85
In the second to fifth years, inclusive	–	170	57	–
	–	283	170	85

23. DISTRIBUTABLE RESERVE

At 31st March, 2002, 31st March, 2003, 31st March, 2004 and 31st December, 2004, Kario HK did not have any reserves available for distribution to the shareholders.

As stipulated by the Rules for the Implementation of the Law of the People's Republic of China on Foreign Capital Enterprises (中華人民共和國外資企業法實施細則), DG Kario is required to make appropriation of 10% of its profit after taxation each year as recorded in the PRC statutory accounts to the statutory reserve fund until the fund balance reaches 50% of its registered capital. The statutory reserve fund can only be used, upon approval by the relevant authority, for making up losses and capitalization into capital.

24. RELATED PARTY TRANSACTIONS

In addition to the transactions and balances set out in notes 14 and 17 above, the Kario Group had the following material related party transactions during the Relevant Audited Periods:

(a) Acquisition of plant and machinery

During the year ended 31st March, 2003, Kario HK entered into a sale and purchase agreement to acquire certain machineries at a consideration of approximately HK$1,132,000 from Kenford HK. Mr. Tam Chi Sang and Mr. Lam Wai Ming are both directors and shareholders of Kenford HK, while Mr. Chan Kwok Tung is a director of Kenford HK. The directors confirmed that the consideration was based on mutual agreement between both parties after taking into consideration the then market price of new machineries and the status and working condition of the individual machineries acquired.

24. RELATED PARTY TRANSACTIONS – Continued

(b) Sales, purchase, commissions and reimbursement of expenses

		Year ended 31st March,			Nine months ended 31st December,	
		2002	**2003**	**2004**	**2004**	**2003**
	Notes	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
						(Unaudited)
Sale of goods to:						
Kenford HK	*(i)*	–	–	540	3,289	540
Purchase of goods from:						
Kenford HK	*(i)*	–	–	–	50	–
Wages and electricity reimbursed from:						
Kenford HK	*(ii)*	–	–	943	1,108	791
Commission paid to:						
Kenford HK	*(iii)*	–	1,574	3,703	2,563	3,223

Notes:

(i) The sales and purchases transactions with Kenford HK were determined on a cost-plus basis.

(ii) Wages and electricity were reimbursed from Kenford HK on a cost basis.

(iii) Commissions paid were incurred to compensate Kenford HK for its introduction and referral of business opportunities and for rendering of overall management support. The commission was determined at 15% to 25% on the gross selling price (including value added tax) of goods sold to a major customer introduced by Kenford HK.

In the opinion of the directors, the above related party transactions were conducted in the normal commercial terms in the ordinary course of business.

G. SUBSEQUENT EVENTS

The following significant events took place subsequent to 31st December, 2004:

(a) The Kario Group was involved in the Company's reorganisation in preparation for the listing of shares of the Company on the Main Board of The Stock Exchange of Hong Kong Limited. Details of which are set out in the paragraph headed "Corporate reorganisation" in Appendix VIII of the Prospectus.

(b) On 5th January, 2005, the Kario Group paid 新增建設用地有償使用費(newly-added construction land usage fee) of approximately HK$193,000 for a land use right of a piece of vacant land of about 6,390 sq.m. situated adjacent to its existing factory in Dongguan. However, up to the date of this report, the state-owned land use right certificate for such piece of land has yet to be approved and granted by the relevant land authorities.

H. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared for the Kario Group in respect of any periods subsequent to 31st December, 2004.

Yours faithfully,

BDO McCabe Lo & Company
Certified Public Accountants
Hong Kong

Chua Suk Lin Ivy
PC No. P02044

PCP CPA Limited
Certified Public Accountants
Hong Kong

For illustrative purposes only, the unaudited pro forma financial information prepared in accordance with Rule 4.29 of the Listing Rules is set out here to provide the investors with further information to assess the Group's financial performance after taking into account (a) the exercise in full of the options granted under the Pre-IPO Share Option Scheme and the Capitalisation Issue and the Share Offer on the earnings per Share of the Group and (b) the adjusted net tangible assets to illustrate the financial position of the Group after completion of the Capitalisation Issue and the Share Offer.

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 because of its nature, it may not give a true picture of an actual financial performance during the Track Record Period and the financial position of the Group after completion of the Capitalisation Issue and the Share Offer.

A. UNAUDITED PRO FORMA EARNINGS PER SHARE

(i) Based on the audited combined net profit attributable to shareholders for the year ended 31st March, 2004 and the nine months ended 31st December, 2004

	Year ended 31st March, 2004	Nine months ended 31st December, 2004
Audited combined net profit attributable to shareholders for the year/period as set forth in the accountants' report in Appendix I to this prospectus	HK$31,076,000	HK$56,918,000
Unaudited pro forma fully diluted earnings per Share taking into account the Pre-IPO Share Options granted *(Note 1)*	HK$0.077	HK$0.141

Notes:

1. The calculation of the unaudited pro forma fully diluted earnings per Share is calculated based on the audited combined net profit attributable to shareholders of the Group for the year ended 31st March, 2004 and the nine months ended 31st December, 2004 assuming (i) the Capitalisation Issue and the Share Offer had been completed on 1st April, 2003 (but without taking into account of any Shares which may be granted under the Share Option Scheme or the subscription rights attaching to the Warrants) and a total of 400,000,000 Shares had been issued during the year ended 31st March, 2004 and the nine months ended 31st December, 2004 and (ii) the Pre-IPO Options granted pursuant to the Pre-IPO Share Option Scheme were exercised in full on 1st April, 2003 resulting in the issuance of 4,000,000 additional Shares. The directors consider that the Capitalisation Issue and the Share Offer and the exercise of the Pre-IPO Share Options will not have any effect on the combined net profit attributable to shareholders of the Group for the year ended 31st March, 2004 and the nine months ended 31st December, 2004.

(ii) Based on the estimated combined profit for the year ended 31st March, 2005

Estimated combined profit after taxation and minority interests but before extraordinary items for the year ended 31st March, 2005 *(Note 1)*	Not less than HK$57 million
Unaudited pro forma estimated earnings per Share *(Note 2)*	HK$0.143
Unaudited pro forma estimated fully diluted earnings per Share taking into account the Pre-IPO Share Option granted *(Note 3)*	HK$0.141

Notes:

1. The estimated combined profit after taxation and minority interests but before extraordinary items of the Group for the year ended 31st March, 2005 is extracted from the section headed "Financial information" in the prospectus. The bases on which the above profit estimate for the year ended 31st March, 2005 has been prepared are summarised in Appendix IV to the prospectus.

   The estimate of the combined profit after tax and minority interests but before extraordinary items of the Group for the year ended 31st March, 2005 prepared by the Directors is the combined results of the Group based on the audited financial statements of the Group for the nine months ended 31st December, 2004 and the combined results of the Group based on unaudited management accounts of the Group for the three months ended 31st March, 2005. The Directors are not aware of any extraordinary items which have arisen or are likely to arise during the year ended 31st March, 2005.

   The estimate has been prepared on the basis of the accounting policies consistent in all material aspects with those currently adopted by the Group as summarised in the accountants' report, the text of which is set out in Appendix I to the prospectus.

2. The calculation of the unaudited pro forma estimated earnings per Share is based on the estimated combined profit after tax and minority interests but before extraordinary items of the Group for the year ended 31st March, 2005 and a total of 400,000,000 Shares in issue assuming the Capitalisation Issue and Share Offer had been completed on 1st April, 2004 but taking no account of any Shares which may fall to be issued upon the exercise of any options which have been granted under the Pre-IPO Share Option Scheme or may be granted under the Share Option Scheme or any Shares which may fall to be allotted and issued upon the exercise of the subscription rights attaching to the Warrants or which may be allotted and issued or repurchased by the Company pursuant to the general mandates for the issue or repurchase of Shares granted to the Directors referred to in the paragraph headed "Written resolutions of all the Shareholders passed on 27th May, 2005" in Appendix VIII to this prospectus.

3. The calculation of the unaudited pro forma estimated fully diluted earnings per Share is calculated based on the estimated combined profit after taxation and minority interests but before extraordinary items of the Group for the year ended 31st March, 2005 assuming (i) the Capitalisation Issue and the Share Offer had been completed on 1st April, 2004 (but without taking into account of any Shares which may be granted under the Share Option Scheme or the subscription rights attaching to the Warrants) and a total of 400,000,000 Shares had been issued during the year ended 31st March, 2005 and (ii) the Pre-IPO Options granted pursuant to the Pre-IPO Share Option Scheme were exercised in full on 1st April, 2004 resulting in the issuance of 4,000,000 additional Shares. The directors consider that the Capitalisation Issue and the Share Offer and the exercise of the Pre-IPO Share Options will not have any effect on the estimated combined profit after taxation and minority interests but before extraordinary items of the Group for the year ended 31st March, 2005.

B. UNAUDITED PRO FORMA ADJUSTED NET TANGIBLE ASSETS

The following statement of unaudited pro forma adjusted net tangible assets of the Group is based on the audited combined net tangible assets of the Group and the KARIO Group as at 31st December, 2004 as shown in the accountants' report and additional financial information of KARIO set out in Appendix I and II respectively, to this prospectus, adjusted as described below:

	Audited combined net tangible assets of the Group as at 31st December, 2004	Audited net tangible liabilities of the KARIO Group as at 31st December, 2004	Elimination of unrealised profit on closing inventory	Estimated net proceeds from the Share Offer	Unaudited pro forma adjusted net tangible assets	Unaudited pro forma adjusted net tangible assets per Share
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$*
	(Note 1)	*(Note 2)*	*(Note 3)*	*(Note 4)*	*(Note 5)*	*(Note 5, 6)*
Based on an offer price of HK$0.55 per Share	108,089	(2,414)	(225)	34,000	139,450	0.35

Notes:

1. With reference to the valuation of the Group's property interest as set out in Appendix V to this prospectus, the aggregated revalued amount of property interests of the Group as at 28th February, 2005, was approximately HK$58,750,000. The unaudited net book value of these properties as at 28th February, 2005 was approximately HK$49,007,000. Thus, the net revaluation surplus is approximately HK$9,743,000, which has not been included in the above net tangible assets of the Group. The net revaluation surplus will not be recorded in the Group's financial statements as the Group accounts for its property interests at cost less impairment and depreciation. The net surplus of HK$9,743,000 is represented by a gross revaluation surplus of HK$14,809,000 and a gross revaluation deficit of HK$5,066,000 on individual property interest basis. If the revaluation surplus is to be included in the Group's financial statements for the year ended 31st March, 2005, the depreciation charge of the Group would be increased by approximately HK$296,000 for the year ended 31st March, 2005. In respect of the property interest with revaluation deficit, the Directors consider that the value in use is higher than its unaudited net book and no provision for impairment loss is required.

2. As the acquisition of the KARIO Group forms part of the Reorganisation for the purpose of listing, the Directors consider that it is relevant to include the net tangible liabilities of the KARIO Group as of 31st December, 2004 in the calculation of the net tangible assets of the Group as if the acquisition had taken place on 31st December, 2004. For the purpose of the unaudited pro forma adjusted net tangible assets, intercompany transactions with impacts on the net tangible assets were eliminated. The nature of which were described in note 3 below.

3. Elimination of unrealized profit on sale of goods from the KARIO Group to the Group.

4. The net proceeds from the Share Offer are estimated to be approximately HK$34 million after deduction of the underwriting fees and other related expenses payable by the Company in relation to the Share Offer. Please refer to sub–section headed "Use of proceeds" under the section headed "Future plans and use of proceeds" to this prospectus for future use of net proceeds.

5. Subsequent to 31st December, 2004, on 22nd March, 2005, a subsidiary of the Company declared a special dividend of HK$30 million payable from the internal resources of the Group to the then shareholders of the subsidiary. Such a dividend has not been adjusted in the unaudited pro forma adjusted net tangible assets and the unaudited pro forma adjusted net tangible assets per Share. After taking into account the payment of the dividend, the unaudited pro forma adjusted net tangible assets and the unaudited pro forma adjusted net tangible assets per Share would have been decreased.

6. The unaudited pro forma adjusted net tangible assets per Share is arrived at based on 400,000,000 Shares expected to be in issue immediately following completion of the Capitalisation Issue and the Share Offer but taking no account of any Shares which may fall to be issued upon the exercise of any options which have been granted under the Pre-IPO Share Option Scheme or may be granted under the Share Option Scheme or any Shares which may fall to be allotted and issued upon the exercise of the subscription rights attaching to the Warrants or which may be allotted and issued or repurchased by the Company pursuant to the general mandates for the issue or repurchase of Shares granted to the Directors referred to in the paragraph headed "Written resolutions of all the Shareholders passed on 27th May, 2005" in Appendix VIII to this prospectus.

C. COMFORT LETTER ON UNAUDITED PRO FORMA FINANCIAL INFORMATION RELATING TO THE UNAUDITED PRO FORMA EARNINGS PER SHARE AND UNAUDITED PRO FORMA ADJUSTED NET TANGIBLE ASSETS

BDO McCabe Lo & Company
德豪嘉信會計師事務所
8th Floor, Wing On Centre,
111 Connaught Road Central, Hong Kong
Telephone: (852) 2541 5041
Facsimile: (852) 2815 2239
香港干諾道中111號永安中心8樓
電話：(852) 2541 5041
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PCP CPA Limited
華德匡成會計師事務所有限公司
Suites 2205-6, Island Place Tower,
510 King's Road, North Point, Hong Kong.
Telephone: (852) 2882 8378
Facsimile: (852) 3009 8534
香港北角英皇道510號港運大廈22樓5至6室
電話：(852) 2882 8378
傳真：(852) 3009 8534

31st May, 2005

The Directors
Kenford Group Holdings Limited
Partners Capital International Limited
SinoPac Securities (Asia) Limited

Dear Sirs,

We report on the unaudited pro forma financial information of Kenford Group Holdings Limited (the "Company") and its subsidiaries (hereinafter collectively referred to as the "Group") set out under the heading of "Unaudited pro forma earnings per share" and "Unaudited pro forma adjusted net tangible assets" in Parts A and B of Appendix III of the prospectus of the Company dated 31st May, 2005 (the "Prospectus") in connection with the placing and public offer of the shares (the "Share Offer") of the Company on Main Board of The Stock Exchange of Hong Kong Limited. The unaudited pro forma financial information has been prepared by the directors of the Company, for illustrative purposes only, to provide information about how the exercise in full of the options granted under the Pre-IPO Share Option Scheme resulting in the issuance of 4,000,000 additional Shares, and the Capitalisation Issue and the Share Offer might have affected the financial information presented.

RESPONSIBILITIES

It is the responsibility solely of the directors of the Company to prepare the pro forma financial information in accordance with paragraph 21 of Appendix 1A and paragraph 4.29 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("the Listing Rules").

It is our responsibility to form an opinion, as required by paragraph 4.29 of the Listing Rules, on the unaudited pro forma financial information 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 unaudited pro forma financial information beyond that owed to those to whom those report were addressed by us at the dates of their issue.

BASIS OF OPINION

We conducted our work with reference to 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, where applicable. Our work, which involved no independent examination of any of the underlying financial information, consisted primarily of comparing the unadjusted financial information with the source documents, considering the evidence supporting the adjustments and discussing the unaudited pro forma financial information with the directors of the Company.

Our work does not constitute an audit or review in accordance with Standards of Auditing Standards issued by the Hong Kong Institute of Certified Public Accountants, and accordingly, we do not express any such assurance on the unaudited pro forma financial information.

The unaudited pro forma financial information has been prepared on the bases set out in Section A and Section B of Appendix III to the Prospectus for illustrative purpose only and, because of its nature, it may not be indicative of:

- the earnings per share of the Group for the year ended 31st March, 2004, the nine months ended 31st December, 2004 and the year ended 31st March, 2005 and for any future periods; or
- the net tangible assets value of the Group as at 31st December, 2004 or at any future date.

OPINION

In our opinion:

(a) the unaudited pro forma financial information has been properly compiled by the directors of the Company on the bases stated;

(b) such bases are consistent with the accounting policies of the Group; and

(c) the adjustments are appropriate for the purposes of the unaudited pro forma financial information as disclosed pursuant to paragraph 4.29 of the Listing Rules.

Yours faithfully,

BDO McCabe Lo & Company
Certified Public Accountants
Hong Kong

Chua Suk Lin Ivy
PC NO. P02044

PCP CPA Limited
Certified Public Accountants
Hong Kong

The estimate of combined profit after taxation and minority interests but before extraordinary items of the Group for the year ended 31st March, 2005 (the "Profit Estimate") is set out in the section headed "Financial information – Profit estimate for the year ended 31st March, 2005".

A. BASES

The Profit Estimate prepared by the Directors has been based on the audited combined results of the Group for the nine months ended 31st December, 2004 and the combined results of the Group based on the unaudited management accounts of the Group for the three months ended 31st March, 2005. The Directors are not aware of any extraordinary items which have arisen or are likely to arise during the financial year ended 31st March, 2005. The estimate has been prepared on the basis of the accounting policies consistent in all material aspects with those currently adopted by the Group as summarised in the accountants' report, the text of which is set out in Appendix I to this prospectus.

B. LETTER FROM JOINT REPORTING ACCOUNTANTS

BDO McCabe Lo & Company
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Telephone: (852) 2541 5041
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31st May, 2005

The Directors
Kenford Group Holdings Limited
Partners Capital International Limited
SinoPac Securities (Asia) Limited

Dear Sirs,

We have reviewed the calculations of and accounting policies adopted in arriving at the estimate of the combined profit after taxation and minority interests but before extraordinary items of Kenford Group Holdings Limited (the "Company") and its subsidiaries (collectively the "Group") for the year ended 31st March, 2005 (the "Profit Estimate") as set out in the subsection headed "Profit estimate for the year ended 31st March, 2005" in the section headed "Financial information" in the prospectus of the Company dated 31st May, 2005 (the "Prospectus").

We conducted our work in accordance with the Auditing Guideline 3.341 on "Accountants' report on profit forecasts" issued by the Hong Kong Institute of Certified Public Accountants.

The Profit Estimate, for which the directors of the Company are solely responsible, has been prepared by them based on the bases set out in Section A of Appendix IV to the Prospectus.

In our opinion, the Profit Estimate, so far as the accounting policies and calculations are concerned, has been properly compiled in accordance with the bases made by the directors of the Company as set out in Section A of Appendix IV to the Prospectus, and is presented on a basis consistent in all material respects with the accounting policies presently adopted by the Group as set out in our accountants' report dated 31st May, 2005, the text of which is set out in Appendix I to the Prospectus.

Yours faithfully,

BDO McCabe Lo & Company
Certified Public Accountants
Hong Kong

Chua Suk Lin Ivy
PC No. P02044

PCP CPA Limited
Certified Public Accountants
Hong Kong

C. LETTER FROM PARTNERS CAPITAL AND SINOPAC

博大資本國際有限公司
Partners Capital International Limited

SinoPac Securities (Asia) Limited

31st May, 2005

The Directors
Kenford Group Holdings Limited

Dear Sirs,

We refer to the estimate of the combined profit after taxation and minority interests but before extraordinary items of Kenford Group Holdings Limited (the "Company") and its subsidiaries (collectively the "Group") for the financial year ended 31st March, 2005 (the "Profit Estimate") as set out in this prospectus issued by the Company dated 31st May, 2005 (the "Prospectus").

We have discussed with you the bases, as set out in Section A of Appendix IV to this Prospectus, upon which the Profit Estimate has been made. We have also considered the letter dated 31st May, 2005 addressed to yourselves and ourselves from BDO McCabe Lo & Company and PCP CPA Limited regarding the accounting policies and calculations upon which the Profit Estimate has been made.

On the basis of the foregoing, the bases, as set out in Section A of Appendix IV to this Prospectus, made by you and the accounting policies and calculations reviewed by BDO McCabe Lo & Company and PCP CPA Limited, we are of the opinion that the Profit Estimate, for which you as directors of the Company are solely responsible, has been made after due and careful enquiry.

Yours faithfully,

For and on behalf of	For and on behalf of
Partners Capital International Limited	**SinoPac Securities (Asia) Limited**
Alan Fung	**Frank Lam**
Managing Director	*Executive Director*

The following is the text of the letter, summary of values and valuation certificate prepared for the purpose of incorporation in this prospectus received from B.I. Appraisals Limited, an independent property valuer, in connection with its valuation of the property interests of the Group in Hong Kong and the PRC as at 28th February, 2005.

B.I.
To Know Your Strength Better

B. I. Appraisals Limited
保柏國際評估有限公司
Registered Professional Surveyors, Valuers & Property Consultants
Unit B, 38th Floor, Bank of China Tower, 1 Garden Road, Hong Kong
Tel: (852) 2127 7762 Fax: (852) 2137 9876
Email: info@biappraisals.com.hk
Website: www.bisurveyors.com.hk

31st May, 2005

The Directors
Kenford Group Holdings Limited
Room 1106-08
Riley House
88 Lei Muk Road
Kwai Chung
New Territories

Dear Sirs,

In accordance with the instructions from Kenford Group Holdings Limited (hereinafter referred to as the "Company") to us to value the property interests held and leased by the Company and/or its subsidiaries and/or associated companies (hereinafter together referred to as the "Group") in the Hong Kong Special Administrative Region ("Hong Kong") and in the People's Republic of China (the "PRC"), we confirm that we have carried out inspections, made relevant enquiries and obtained such further information as we consider necessary for the purpose of providing you with our opinion of the open market values of such property interests as at 28th February, 2005 (hereinafter referred to as the "date of valuation").

This letter which forms part of our valuation report explains the basis and methodology of valuation, clarifies our assumptions made and title investigation conducted and states the limiting conditions.

BASIS OF VALUATION

Our valuation of each of the property interests is our opinion of its open market value which we would define as intended to mean "the best price at which the sale of an interest in the property would have been completed unconditionally for cash consideration on the date of valuation, assuming:

(a) a willing seller;

(b) that, prior to the date of valuation, there had been a reasonable period (having regard to the nature of the property and the state of the market) for the proper marketing of the interest, for the agreement of price and terms and for the completion of the sale;

(c) 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;

(d) that no account is taken of any additional bid by a prospective purchaser with a special interest; and

(e) that both parties to the transaction had acted knowledgeably, prudently and without compulsion."

We have valued the property interests on the basis that each of them is considered individually. We have not allowed for any discount for the properties to be sold to a single party nor taken into account any effect on the values if the properties are to be offered for sale at the same time as a portfolio.

No account has been taken of any option or right of pre-emption concerning or affecting the sale of the property interests and no forced sale situation in any manner is assumed in our valuations.

VALUATION METHODOLOGY

We have valued the property interest in Group I, which is held and occupied by the Group in Hong Kong, on an open market basis by the Direct Comparison Approach assuming such property interest is capable of being sold in the existing state with the benefit of immediate vacant possession. Comparison based on prices realized on actual sales or offerings of comparable properties is made. Comparable properties of similar size, character and location are analyzed and carefully weighted against all the respective advantages and disadvantages of the property interest in order to arrive at a fair comparison of value.

The property interest in Group II, which is held and occupied by the Group in the PRC, due to the nature of buildings and structures constructed thereon, there are no readily identifiable market comparable, the property cannot be valued by comparison with open market transactions. Hence, we have adopted the Depreciated Replacement Cost (DRC) Approach in assessing the value of such property interest. This approach of valuation is based on an estimate of the open market value for the existing use of the land, plus the current gross replacement costs of the buildings and structures erected thereon, less allowances for physical deterioration and all relevant forms of obsolescence. The DRC Approach generally furnishes the most reliable indication of value for property in the absence of a known market based on comparable.

The property interests in Group III, which are leased by the Group in the PRC, are considered to have no commercial value due mainly to the prohibition against assignment or sub-letting or otherwise due to the lack of substantial profit rents.

The property interest in Group IV, which is to be acquired by the Group in the PRC, is considered to have no commercial value due mainly to the fact that the procedure in obtaining the land use rights of such property is still in process and that the Group has not obtained any equity interest in the property.

VALUATION ASSUMPTIONS

Our valuations have been made on the assumption that the owner sells the property interests in the open market without the benefit of a deferred terms contract, leaseback, joint venture, or any similar arrangement, which would serve to affect the values of such property interests.

No allowance has been made in our valuations for any charges, mortgages or amount owing on the properties nor for any expenses or taxation, which may be incurred in effecting a sale. Unless otherwise stated, it is assumed that the properties are free from encumbrances, restrictions and outgoings of an onerous nature, which could affect their values.

In valuing the property interest located in Hong Kong, the Government Lease of which has expired before 30th June, 1997, we have taken into account the provisions contained in the Basic Law of Hong Kong and the New Territories Leases (Extension) Ordinance 1988 that such lease has been extended without any additional payment of premium until 30th June, 2047 and that an annual rent equivalent to 3% of the rateable value of the property from time to time will be charged from the date of extension.

Other specific assumptions for each of the properties, if any, have been stated in the notes of the valuation certificate for the respective properties.

TITLE INVESTIGATION

We have caused searches to be made at the Tsuen Wan District Land Registry for the property located in Hong Kong. However, we have not scrutinized the original documents to verify ownership and to ascertain the existence of any amendments, which may not appear on the copies of documents available to us. All documents and leases have been used for reference only.

For the properties located in the PRC, due to the nature of the land registration system in the PRC, we are not able to investigate the title to or any liabilities against such property interests. However, we have been provided by the Group with copies of title documents and tenancy agreements in respect of such properties. In undertaking our valuations of such properties, we have relied on the legal opinion regarding the title to the property interests prepared by King & Wood, the Group's legal adviser as to PRC laws (hereinafter referred to as the "PRC Legal Adviser").

LIMITING CONDITIONS

We have inspected the exterior and, where possible, the interior of the properties. However, no structural survey has been made nor have any tests been carried out on any of the services provided in the properties. We are, therefore, not able to report as to whether the properties are free from rot, infestation or other structural defects. Yet, during the course of our inspections, we did not note any serious defects.

We have not carried out on-site measurements to verify the site and floor areas in respect of the properties but have assumed that the areas shown on the documents and the site and floor plans handed to us are correct. Dimensions, measurements and areas included in the attached valuation certificates are based on information contained in the documents provided to us by the Group and are therefore only approximations.

Moreover, we have not conducted any site investigation to determine or otherwise the suitability of the ground conditions, the presence or otherwise of contamination and the provision of or otherwise suitability for services, etc. for any future development.

We have relied to a considerable extent on the information provided by the Group and have accepted advice on such matters as planning approvals, statutory notices, easements, tenures, particulars of occupancy, tenancy agreements, completion date of buildings, site and floor areas and all other relevant matters in the identification of the properties.

We have had no reason to doubt the truth and accuracy of the information provided to us by the Group. We were also advised by the Group that no material facts have been omitted from the information provided. We consider that we have been provided with sufficient information to reach an informed view, and have no reason to suspect that any material information has been withheld.

REMARKS

Unless otherwise stated, all monetary amounts stated in our valuation certificates are in Hong Kong Dollars (HK$). Where necessary, the exchange rate adopted in our valuations is HK$1=RMB1.06 which was approximately the prevailing exchange rate as at the date of valuation. There has been no significant fluctuation in exchange rate between the date of valuation and the date of this letter.

Our valuations have been prepared in accordance with the "Hong Kong Guidance Notes on the Valuation of Property Assets (2nd Edition)" published by The Hong Kong Institute of Surveyors in March 2000 and under the generally accepted valuation procedures and practices, which are in compliance with the requirements as stated in Practice Note No. 12 and Chapter 5 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

We hereby confirm that we have neither present nor prospective interests in the Group, the properties or the values reported herein.

We attach herewith a summary of values and our valuation certificates.

Yours faithfully,
For and on behalf of
B.I. APPRAISALS LIMITED
William C. K. Sham *MRICS, MHKIS, RPS (G.P.), MCIREA*
Executive Director

Note: Mr. William C. K. Sham is a Chartered Surveyor and a member of the China Institute of Real Estate Appraisers who has more than 22 and 10 years' experience in the valuation of properties in Hong Kong and in the PRC respectively.

SUMMARY OF VALUES

Property		Open market value in existing state as at 28th February, 2005
Group I – Property interest held and occupied by the Group in Hong Kong		
1.	Units 1106, 1107 and 1108 on 11th Floor, Riley House, No. 88 Lei Muk Road, Kwai Chung, New Territories, Hong Kong	HK$6,750,000
Group II – Property interest held and occupied by the Group in the PRC		
2.	An industrial complex located at Xiakeng Village, Changping Town, Dongguan City, Guangdong Province, the PRC	HK$52,000,000
Group III – Property interests leased by the Group in the PRC		
3.	An industrial building located at Xiakeng Village, Changping Town, Dongguan City, Guangdong Province, the PRC	No commercial value
4.	An industrial complex located at Fenghuanggang Village, Xixiang Town, Baoan District, Shenzhen City, Guangdong Province, the PRC	No commercial value
Group IV – Property interest to be acquired by the Group in the PRC		
5.	A parcel of land located at Xiakeng Village, Changping Town, Donnguan City, Guangdong Province, the PRC	No commercial value
	Total:	HK$58,750,000

VALUATION CERTIFICATE

Group I – Property interest held and occupied by the Group in Hong Kong

Property	Description and tenure	Particulars of occupancy	Open market value in existing state as at 28th February, 2005
1. Units 1106, 1107 and 1108 on 11th Floor, Riley House, No. 88 Lei Muk Road, Kwai Chung, New Territories, Hong Kong An aggregate 14094/944862 shares of and in Lot No. 937 in Demarcation District No. 450	Riley House is a 25-storey industrial building completed in 1992. The property comprises three adjoining units on 11th Floor of the subject building. The total gross floor area and the total saleable area of the property are approximately 1,788.65 sq.m. (19,253 sq.ft.) and 1,354.98 sq.m. (14,585 sq.ft.) respectively. Lot No. 937 in Demarcation District No. 450 is held under New Grant No. 4185 for a term of 99 years commenced from 1st July, 1898, less the last three days thereof. The said lease term has been statutorily extended to expire on 30th June, 2047.	The Property is currently occupied by the Group for office, workshop and warehouse purposes.	HK$6,750,000

Notes:

(1) The registered owner of the property is Kenford Industrial Company Limited vide Memorial Nos. TW865493, TW865494 and TW865495 all dated 13th October, 1992.

(2) The property is subject to a Mortgage in favour of The Hongkong and Shanghai Banking Corporation Limited vide Memorial No. TW865496 dated 13th October, 1992.

Group II – Property interest held and occupied by the Group in the PRC

Property	Description and tenure	Particulars of occupancy	Open market value in existing state as at 28th February, 2005
2. An industrial complex located at Xiakeng Village, Changping Town, Dongguan City, Guangdong Province, the PRC	The property comprises an industrial complex erected on a parcel of land roughly rectangular in shape with a site area of approximately 20,391.40 sq.m. (219,493 sq.ft.). The industrial complex comprises a total 4 blocks of four to seven-storey buildings and a number of one to two-storey ancillary structures, all of which were completed in 1999. The total gross floor area of the industrial complex (excluding the ancillary structures) is approximately 42,538.18 sq.m. (457,881 sq.ft.). The land use rights of the property have been granted for industrial use for a term expiring on 30th March, 2054.	The property is occupied by the Group as factory and dormitories.	HK$52,000,000

Notes:

(1) Pursuant to the Certificate for State-owned Land Use 東府國用（2004）第特272號 (Dong Fu Guo Yong (2004) No. Te 272) issued by Dongguan People's Government on 20th May, 2004, the land use rights of the property have been granted to 東莞家利來電器有限公司 (hereinafter referred to as "DG KARIO"), which is a wholly-owned subsidiary of the Group, for a term expiring on 30th March, 2054 for industrial use.

(2) Pursuant to four Certificates of Real Estate Ownership all dated 22nd December, 2004 and issued by Guangdong Provincial People's Government, the ownership to the four blocks of buildings erected on the subject parcal of land and having a total gross floor area of 42,538.18 sq.m., is vested to DG KARIO. Details of the Certificates of Real Estate Ownership are summarized as follows:

Certificate of Real Estate Ownership No.	Use of Building	No. of Storey	Gross Floor Area (sq.m.)
粵房地證字第C3335334號 (Yue Fang Di Zheng Zi No. C3335334)	Factory	4	29,099.20
粵房地證字第C3335335號 (Yue Fang Di Zheng Zi No. C3335335)	Dormitory	6	1,974.36
粵房地證字第C3335336號 (Yue Fang Di Zheng Zi No. C3335336)	Dormitory	7	9,082.14
粵房地證字第C3335337號 (Yue Fang Di Zheng Zi No. C3335337)	Dormitory	6	2,382.48

(3) In the course of our valuation, we have not taken into account the ancillary structures erected on the subject parcel of land in the property.

(4) The land use rights of the property was obtained on 20th May, 2004 with the total amount of land premium, land administration fee and stamp duty of RMB540,449 having been paid in full. We have been advised that as at 31st October, 2004, the total development costs expended were approximately HK$42,900,000.

(5) The opinion of the PRC Legal Adviser states that:

a) DG KARIO has legally obtained the land use rights of the property by way of grant and has settled in full the relevant land premium and the relevant tax and fee.

b) There are no notice or order issued by relevant government departments which may affect the said land use rights.

c) DG KARIO is in possession of a proper legal title to the land use rights and is entitled to occupy, use, transfer, let and mortgage the said land use rights.

d) DG KARIO has legally obtained the respective Certificates of Real Estate Ownership regarding the four blocks of buildings erected on the parcel of land held under Certificate for State-owned Land Use Dong Fu Guo Yong (2004) No. Te 272 and having a total gross floor area of 42,538.18 sq.m.

e) There are no notice or order issued by relevant government departments which may affect the ownership of the said four blocks of buildings.

f) DG KARIO is in possession of a proper legal title to the said four blocks of buildings and is entitled to occupy, use, transfer, let and mortgage the said four blocks of buildings.

(6) The current status of the property regarding major approvals, consents or licences in accordance with the information provided by the Group and the aforesaid legal opinion are as follows:

Contract for Grant of State-owned Land Use Rights	Yes
Certificate for State-owned Land Use	Yes
Certificates of Real Estate Ownership	Yes

Group III – Property interests leased by the Group in the PRC

Property	Description and tenancy particulars	Open market value in existing state as at 28th February, 2005
3. An industrial building located at Xiakeng Village, Changping Town, Dongguan City, Guangdong Province, the PRC	The property comprises a single-storey industrial building completed in about 2000. The gross floor area of the property is approximately 900.00 sq.m. (9,688 sq.ft.). The property is occupied by the Group for production use under a lease agreement for a term of 3 years from 1st October, 2002 to 30th September, 2005 at a monthly rent of RMB10,000.	No commercial value

Notes:

(1) The lessor is 東莞市常平聯達膠粘帶製品廠 (Dongguan Changping Lian Da Adhesive Tape Factory), which, as advised by the Group, is an independent third party.

(2) We have not been provided with any document regarding the title to the property, and are, therefore, not able to report on its ownership.

(3) The opinion of the PRC Legal Adviser states that:

a) The ownership certificate for the said building has not been made available for the inspection of the PRC Legal Adviser.

b) Should the said building have been erected on collectively-owned land, the above-mentioned lease agreement would not be legally valid and enforceable under the PRC Law.

c) According to Article 81 of the PRC Land Management Law, land administrative authority of a level higher than that of the county level has the power to require the grantor, transferor or lessor who grants, transfers, or leases the collectively-owned land use rights for non-agriculture construction use without prior approval to rectify within a certain period, forfeit the grantor's, transferor's or lessor's illegal gains. DG KARIO, as the lessee, shall not be punished for leasing the collectively-owned land use rights.

Property	Description and tenancy particulars	Open market value in existing state as at 28th February, 2005
4. An industrial complex located at Fenghuanggang Village, Xixiang Town, Baoan District, Shenzhen City, Guangdong Province, the PRC	The property comprises an industrial complex erected on a parcel of land with a site area of approximately 1,300.00 sq.m. (13,993 sq.ft.). The industrial complex was completed in about 1993. The gross floor area of the property is approximately 3,200.00 sq.m. (34,445 sq.ft.). The land is provided to the Group to use for a term of 20 years up to 25th March, 2012 at a land use fee of RMB260,000. Besides, a monthly land use fee calculated on the basis of RMB2 per sq.m. on the gross floor area is charged during the land use term. The property is currently occupied by a sub-lessee under a sub-letting contract for a term from 7th April, 2004 to 25th March, 2012 and the total rental for the entire term is RMB1,000,000.	No commercial value

Notes:

(1) Pursuant to a Contract for Investment and Factory Construction (hereinafter referred to as the "Factory Construction Contract") entered into between Kenford Industrial Company Limited and 寶安縣新安鎮鳳凰崗經濟發展公司 (Baoan County Xinan Town Fenghuanggang Economic Development Company, hereinafter referred to as "Fenghuanggang Company") on 25th March, 1992, Kenford Industrial Company Limited has leased a piece of land with an area of 1,300 sq.m. in Fenghuanggang Village. The salient terms and conditions of the Factory Construction Contract are as follows:

a) Fenghuanggang Company provides a piece of land with an area of 1,300 sq.m. to Kenford Industrial Company Limited to use for a term of 20 years for the construction of a factory. The land use fee for the land is RMB260,000.

b) The floor area of the factory is 3,200 sq.m. During the land use period, Kenford Industrial Company Limited should pay a land use fee of RMB2 per month per sq.m. of the floor area to Fenghuanggang Company.

c) Kenford Industrial Company Limited is entitled to lease the property during the land use period.

d) During the contract period, either party, who is in breach of the contract thus inducing economic loss on the other party, shall be held responsible for the economic and legal liabilities.

(2) Pursuant to a Contract for Sub-letting the Land Use Rights (hereinafter referred to as the "Sub-letting Contract") entered into between Dongguan Changping Xiakeng Kenford Electronic Factory (hereinafter referred to as "Kenford Electronic Factory") and 深圳市兆威機電有限公司 (Shenzhen City Zhao Wei Mechanical and Electrical Company Limited, hereinafter referred to as "Zhao Wei Company") on 7th April, 2003, the property is sub-let to Zhao Wei Company. The salient terms and conditions of the Sub-letting Contract are as follows:

a) Kenford Electronic Factory sublets the land with a site area of 1,300 sq.m. together with the building erected thereon having a floor area of 3,200 sq.m. to Zhao Wei Company.

b) The sub-letting is for a period from 7th April, 2003 to 25th March, 2012.

c) The aggregate rental for the entire term is RMB1,000,000.

(3) Pursuant to an agreement supplementary to the Sub-letting Contract entered into amongst Kenford Electronic Factory, Kenford Industrial Company Limited and Zhao Wei Company on 1st April, 2005, the three parties further agree the following terms and conditions:

a) Kenford Industrial Company Limited is entitled to the rights and liable to the obligations of Kenford Electronic Factory (acting as the agent for Kenford Industrial Company Limited in signing the Sub-letting Contract) as stated in the Sub-letting Contract from 7th April, 2003.

b) During the contract period, either party, who is in breach of the contract other than by force majeure, shall compensate the other party for all economic losses and all other fees. Yet, in no circumstances such amount shall exceed RMB1,000,000.

(4) The opinion of the PRC Legal Adviser is summarized as follows:

a) Pursuant to the certification of 深圳市寶安區鳳凰崗村委 (Fenghuanggang Village Committee of Baoan District, Shenzhen City), the subject industrial complex was built on collectively-owned land. Hence, the Factory Construction Contract, the Sub-letting Contract and the Supplementary Agreement are not in compliance with the regulation under the PRC Law and are invalid.

b) Pursuant to Article 81 of Land Management Law and Article 39 of【土地管理法實施條例】(Implementation Regulations of Land Management Law), in case of a grant, transfer or lease of land use rights in collectively-owned land for non-agricultural development without prior approval, the land administrative authority of a level higher than that of the county level has the power to require the grantor, transferor or lessor to rectify within certain period (including the possible request on the lessor to re-enter the leased property), to forfeit the rental income, and to fine (at an amount from 5% to 20% of the rental income) for the offence. Kenford Industrial Company Limited, being the lessor of the Sub-letting Contract, may be penalized for leasing of the collectively-owned land use rights in the above manner.

c) Pursuant to the Factory Construction Contract, Fenghuanggang Company should be held responsible for the economic and legal liabilities as a result of its failure to provide (or its re-entry of) the property (which constitutes a breach of the terms of the contract) to Kenford Industrial Company Limited.

d) Should the property be re-entered due to the invalidity of the Factory Construction Contract, Kenford Industrial Company Limited, being not able to lease the property to Zhao Wai Company, should compensate Zhao Wei Company for all economic losses and other fees arising from the breach of contract. Yet, the amount in no circumstances shall be in exceed of RMB1,000,000.

Group IV – Property interest to be acquired by the Group in the PRC

Property	Description and occupancy particulars	Open market value in existing state as at 28th February, 2005
5. A parcel of land located at Xiakeng Village, Changping Town, Dongguan City, Guangdong Province, the PRC	The property comprises a parcel of land, roughly rectangular in shape with a site area of approximately 6,390.00 sq.m. (68,782 sq.ft.). The property is currently vacant.	No commercial value

Notes:

(1) The Group has not obtained the Certificate for State-owned Land Use of the property.

(2) We have been advised by the Group that the application for obtaining the land use rights of the property has been made by the Group and that the newly-added construction land usage fee for the property has been paid by the Group.

(3) The opinion of the PRC Legal Adviser states that DG KARIO has not obtained any legal rights on the property and that there should be no legal impediment for DG KARIO in obtaining the Certificate for State-owned Land Use of the property subject to the following:

a) The relevant land administrative authorities complete the procedure for newly-added construction land (i.e. the procedure of the settlement by the People's Government of Dongguan City of the respective portions of newly-added construction land usage fee to the treasuries of the central government and the provincial government within the payment period);

b) Dongguan Land Bureau enters into a Contract for Grant of State-owned Land Use Rights with DG KARIO; and

c) DG KARIO settles the land premium, administration fee for land requisition, registration fee and other associated fees, if any, in accordance with the Contract for Grant of State-owned Land Use Rights.

(4) The current status of the property regarding major approvals, consents or licences in accordance with the information provided by the Group and the aforesaid legal opinion are as follows:

Contract for Grant of State-owned Land Use Rights	No
Certificate for State-owned Land Use	No
Certificate of Real Estate Ownership	No

Set out below is a summary of certain provisions of the Memorandum of Association and the Articles of the Company 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 10th November, 2004 under the Companies Law. The Memorandum of Association of the Company (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, and that the Company shall have and be capable of exercising all the functions of 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 29th April, 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 materially interested, but this prohibition shall not apply to any of the following matters, namely:

(aa) any contract or arrangement for giving to such Director or his associate(s) any security or indemnity in respect of money lent by him or any of his associates 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 subunderwriting 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 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(s) is/are interested only, whether directly or indirectly, as an officer or executive or a shareholder or in which the Director and any of his associates are not in aggregate 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 any of his associates is derived); or

(ff) any proposal or arrangement 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 generally to the class of persons 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 exDirector who may hold or have held any executive office or any office of profit with the Company or any of its subsidiaries) and exemployees 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 exemployees and their dependents, or to any of such persons, including pensions or benefits additional to those, if any, to which such employees or exemployees 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 reelection or appointment but as between persons who became or were last reelected 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; or

(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 threefourths 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 onethird 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 threefourths 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 onetenth 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 onetenth of the total sum paid up on all the shares conferring that right.

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 of the Company or restricted to voting only for or only against any particular resolution of the Company, 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 and at the same time as the notice of annual general 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 subparagraph (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 nonpayment 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 onethird 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 in respect of dividends of the shares in question (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 the date of 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 of 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 Grand Court of the Cayman Islands (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 account 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 30th November, 2004.

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 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 of 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 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 of the Cayman Islands 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 class of shareholders or creditors, as the case may be, as are present at a meeting called for such purpose and thereafter sanctioned by the Court. 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 Court is 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 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 IX 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.

The Warrants will be issued subject to and with the benefit of an instrument by way of deed poll (the "**Instrument**") executed by the Company. The Warrants will be issued in registered form and will form one class and rank pari passu in all respects with each other.

Subject to the Share Offer becomes unconditional, there will be in issue Warrants conferring the right to subscribe up to HK$30,000,000 in aggregate for Shares, equivalent to the aggregate subscription price for a total of 50,000,000 Shares on the basis of an initial subscription price of HK$0.60 (the "Subscription Price") per Share (subject to adjustment as referred to below). The Warrants will be issued by way of bonus issue to all Shareholders whose names appear on the register of members of the Company as at completion of the Share Offer and the Capitalisation Issue, in the proportion of one Warrant for every four Shares.

The principal terms and conditions of the Warrants (the "**Conditions**") will be set out in the Warrant certificates and will include provisions to the effect set out below. Holders of the Warrants will be entitled to the benefit of, and will be bound by, and be deemed to have notice of the Conditions. They will also be entitled to the benefit of, and will be bound by, and be deemed to have notice of all such terms and conditions and of the provisions of the Instrument, copies of which will be available from the registrar of Warrants.

1. Subscription Rights

(a) The registered holder for the time being of a Warrant (the "**Warrantholders**") will have the right (the "**Subscription Right**") to subscribe the whole or part (in units of HK$0.30 each) of the amount in respect of which the Warrant is issued for fully paid Shares at the Subscription Price (subject to adjustment). The Subscription Rights attaching to the Warrants may be exercised on or after the Listing Date (or such later date as the Directors may determine) up to and including 4:00 p.m. (Hong Kong time) on the business day last preceding the third anniversary of the Listing Date (the "**Subscription Period**") (the date on which such rights or any part thereof are exercised is referred to in these particulars as a "**Subscription Date**"). Any Subscription Rights which have not been exercised during the Subscription Period will lapse and the relevant Warrant Certificates will cease to be valid for any purpose. Payment of the Subscription Price must be made in immediately available funds. If such payment is not received, the Warrants comprised in the relevant exercise of Subscription Rights will not be treated as exercised earlier than the date of receipt of such payment. No such payment will be accepted after 4:00 p.m. (Hong Kong time) on the business day last preceding the third anniversary of the Listing Date.

(b) Each Warrant certificate will contain a subscription form. In order to exercise the Subscription Rights, a Warrantholder must complete and sign the subscription form (which shall, once signed and completed, be irrevocable) and deliver the Warrant certificate together with a remittance for the relevant subscription monies for the Shares in respect of which the Subscription Rights are being exercise, to the registrar of Warrants, and any such delivery shall constitute an irrevocable commitment by such Warrantholder to exercise such Subscription Rights. In each case, compliance must also be made by the exercising Warrantholder with any exchange control, fiscal or other laws or regulations for the time being applicable.

(c) Except where the exercising Warrantholder exercises all the Subscription Rights represented by his/her/its Warrant, he/she/it must exercise his/her/its Subscription Rights in whole multiples of units of Subscription Rights of HK$0.30 each.

(d) No fraction of a new Share will be allotted but any balance representing fractions of the Subscription Price paid on the exercise of the Subscription Rights will be retained by the Company for its own use, provided always that if the Subscription Rights represented by one or more Warrant certificates are exercised at the same time by the same Warrantholder then, for the purposes of determining whether any (and if so what) fraction of a Share arises, the Subscription Rights represented by such Warrant certificates will be aggregated.

(e) The Company undertakes in the Instrument that new Shares falling to be issued and allotted upon the exercise of the Subscription Rights will be allotted and issued no later than 21 business days (or, if applicable, such other period as prescribed by the Stock Exchange) after the relevant Subscription Date and all new Shares so allotted shall take into account of any adjustments which have been made pursuant to paragraph 2 below, rank pari passu with the then existing Shares in issue on the date of allotment and issue of such Shares and shall accordingly entitle the holders to participate in all dividends or other distributions declared, paid or made on or after the relevant date of allotment and issue other than any dividend or other distribution previously declared or recommended or resolved to be paid or made if the record date therefor shall be before the relevant date of allotment and issue and notice of the amount and record date for which shall have been given to the Stock Exchange (as defined in the Instrument) prior to the relevant date of allotment and issue.

(f) As soon as practicable after the relevant issue and allotment of new Shares (and, in any event, not later than 21 business days (or, if applicable, such other period as prescribed by the Stock Exchange) after the relevant Subscription Date) there will be issued free of charge of the Warrantholder(s):

   (i) a certificate (or certificates) for the relevant new Shares in the name(s) of such Warrantholder(s);

(ii) (if applicable) a balancing Warrant certificate in registered form in the name(s) of such Warrantholder(s) in respect of any Subscription Rights remaining unexercised;

(iii) (if applicable) a certificate in registered form evidencing the right of the exercising Warrantholder to the allotment of an additional nominal amount of the capital of the Company, in the event that the credit standing to the subscription right reserve (see paragraph 4 below) is insufficient for the purpose for which it is established; and

(iv) (if applicable) a certificate of any balance of fractions of Subscription Price paid on exercise of the Subscription Rights which is retained pursuant to the provisions referred to in (d) above.

The certificate(s) for the new Shares arising on the exercise of Subscription Rights, the balancing Warrant certificate (if any), the certificate evidencing the right to allotment of an additional nominal amount of capital (if any) and the certificate of the balance of fractions of Subscription Price retained by the Company (if any) will be sent by post at the risk of such Warrantholder(s) to the address of such Warrantholder (or in the case of a joint holding, to that one of them whose name stands first on the register of Warrantholders). If the Company agrees, such certificates may by prior arrangement be retained by the registrar of Warrants to await collection by the relevant Warrantholder(s).

2. Adjustments of the Subscription Price

The Instrument contains detailed provisions relating to the adjustment of the Subscription Price. The following is a summary of, and is subject to, the adjustment provisions of the Instrument:

(a) The Subscription Price will be adjusted (except as mentioned in sub-paragraphs (b) and (c) below) as provided in the Instrument in each of the following cases:

(i) an alteration of the nominal amount of the Shares by reason of any consolidation or subdivision;

(ii) an issue (other than pursuant to a scrip dividend scheme in lieu of a cash dividend or, for the avoidance of doubt, the Capitalisation Issue) by the Company of Shares credited as fully paid by way of capitalisation of profits or reserves (including any contributed surplus, share premium account or capital redemption reserve fund);

(iii) a Capital Distribution (as defined in the Instrument) being made by the Company, whether on a reduction of capital or otherwise, to holders of Shares (in their capacity as such);

(iv) a grant by the Company to the holders of Shares (in their capacity as such) of rights to acquire for cash, assets of the Company or any of its Subsidiaries (as defined in the Instrument);

(v) an offer or grant by the Company to holders of Shares (in their capacity as such) of new Shares for subscription by way of rights, or any options or Warrants to subscribe for new Shares, at a price which is less than 90% of the market price (calculation as provided in the Instrument);

(vi) an issue wholly for cash being made by the Company or any other company of securities convertible into or exchangeable for or carrying rights or subscription for new Shares, if in any case the total Effective Consideration (as defined in the Instrument) per Share is less than 90% of the market price (calculation as provided in the Instrument), or the conversion, exchange or subscription rights of any such issue are altered so that the said total Effective Consideration per Share is less than 90% of such market price;

(vii) an issue being made by the Company wholly for cash of Shares, other than pursuant to a Share Option Scheme (as defined in the Instrument), at a price less than 90% of the market price (calculation as provided in the Instrument); and

(viii) the repurchase by the Company of Shares or securities convertible into Shares or any rights to acquire the Shares (excluding any such repurchase made on the Stock Exchange or any recognised stock exchange, being a stock exchange recognised for such purpose by the Securities and Futures Commission and the Stock Exchange) in circumstances where the Directors consider that it may be appropriate to make an adjustment to the Subscription Price.

(b) Except as mentioned in sub-paragraph (c) below, no such adjustment as is referred to in sub-paragraph (a)(ii) to (vii) above will be made in respect of:

(i) an issue of fully paid Shares upon the exercise of any conversion, exchange or subscription rights attached to securities wholly or partly convertible into or exchangeable for Shares or upon the exercise of any rights (including the Subscription Rights) to acquire Shares;

(ii) an issue by the Company of Shares or other securities of the Company or any Subsidiary (as defined in the Instrument) wholly or partly convertible into or exchangeable for, or carrying rights to acquire or of subscription of, Shares to selected participants pursuant to a Share Option Scheme (as defined in the Instrument);

(iii) an issue by the Company of Shares or by the Company or any Subsidiary (as defined in the Instrument) of securities wholly or partly convertible into or rights to acquire Shares, in any such case in consideration or part consideration for the acquisition of any other securities, assets or business;

(iv) an issue of fully paid Shares by way of capitalisation of all or part of the Subscription Right Reserve (as defined in the Instrument) or other profits or reserves to be established in certain circumstances pursuant to the terms and conditions contained in the Instrument provided that implementation of such terms and conditions is not prohibited by or inconsistent with any laws, rules or regulations to which the Company and the Warrants are subject from time to time (or other profits or reserves or any similar reserve which has been or may be established pursuant to the terms of any other securities wholly or partly convertible into, or carrying rights to acquire, Shares); and

(v) an issue of Shares pursuant to a scrip dividend scheme where an amount not less than the nominal amount of the Shares so issued is capitalised and the market value (calculated as provided in the Instrument) of such Shares in aggregate is not more than 110% of the amount of dividends which holders of Shares could elect to or would otherwise receive in cash.

(c) Notwithstanding the provisions referred to in sub-paragraphs (a) and (b) above, in any circumstances where the Company shall consider that an adjustment to the Subscription Price provided for under the said provisions should not be made or should be calculated on a different basis or that an adjustment to the Subscription Price should be made notwithstanding that no such adjustment is required under the said provisions or that an adjustment should take effect on a different date or with effect from a different time from that provided for under the said provisions, the Company may appoint an approved merchant bank or the Auditors (as defined in the Instrument) to consider whether for any reason whatever the adjustment to be made (or the absence of adjustment) would or might not fairly and appropriately reflect the relative interests of the persons affected thereby and, if such approved merchant bank or the Auditors (as defined in the Instrument) (as the case may be) shall consider this to be the case, the adjustment shall be modified or nullified, or an adjustment made instead of no adjustment in such manner (including without limitation, making an adjustment calculated on a different basis and/or the adjustment shall take effect from such other date and/or time) as shall be certified by such approved merchant bank or the Auditors (as defined in the Instrument) (as the case may be) to be in its opinion appropriate.

(d) Any adjustment to the Subscription Price shall be made to the nearest one cent so that any amount under half a cent shall be rounded down and any amount of half a cent or more shall be rounded up and in no event shall any adjustment be made to the Subscription Price in any case in which the amount by which the same would be reduced would be less than one cent and any adjustment which would otherwise then be required shall not be carried forward. No adjustment may be made (otherwise than upon a consolidation of Shares into shares of a larger nominal amount each or upon a repurchase of Shares) which would increase the Subscription Price or which would result in the Subscription Price falling below the par value of the Shares.

(e) Every adjustment to the Subscription Price shall be certified to be fair and appropriate either (at the option of the Company) by the Auditors (as defined in the Instrument) or an approved merchant bank and notice of each adjustment (giving the relevant particulars) shall be given to the Warrantholders. In giving any certificate or making any adjustment under the Instrument, the Auditors (as defined in the Instrument) or the approved merchant bank (as the case may be) shall be deemed to be acting as experts and not as arbitrators and in the absence of manifest errors, their decision shall be conclusive and binding on the Company and the Warrantholders and all persons claiming through or under them respectively. Any such certificate of the Auditors (as defined in the Instrument) and/or approved merchant bank will be available for inspection at the principal place of business for the time being of the Company in Hong Kong, where copies may be obtained.

3. Registered Warrants

The Warrants will be issued in registered form. The Company shall be entitled to treat the registered holder of any Warrant as the absolute owner thereof and accordingly shall not, except as ordered by a court of competent jurisdiction or required by law, be bound to recognise any equitable or other claim to or interest in such Warrant on the part of any other person, whether or not it has express or other notice thereof.

4. Subscription right reserve

The Instrument provides that, subject to such provision not contravening any laws of the Cayman Islands for the time being applicable to the Company, if the Company does any act which would result in the Subscription Price being reduced below the par value of a Share, a subscription right reserve is to be created and applied in paying up the difference between the Subscription Price and the par value of a Share on any exercise of the Warrants.

5. Transfer, transmission and register

(a) The Warrants shall be transferable, in whole amounts or integral multiples of HK$0.30, by instrument of transfer in any usual or common form or in such other form which may be approved by the Directors. For this purpose, the Company shall maintain a register of Warrantholders in Hong Kong accordingly. Transfers of Warrants must be executed by both the transferor and the transferee. Subject to (b) below, the provisions of the Company's articles of association for the time being relating to the registration, transfer and transmission of Shares and the register of members shall, mutates mutandis, apply (unless inconsistent with any of the provisions of the Instrument or the Conditions) to the registration, transfer and transmission of the Warrants and the register of Warrantholders, save that the Company shall not be obliged (but may if the Directors so resolve) to maintain a principal or any branch register of Warrantholders at any place outside Hong Kong.

(b) Where the transferor or transferee is HKSCC Nominees Limited or its successors thereof or a clearing house (within the meaning of the Securities and Futures Ordinance (Cap. 571 of the Laws of Hong Kong)) or such other company as may be approved by the Board for this purpose, the relevant transfer may be executed by machine imprinted signatures under hand(s) by the authorised person(s), provided that such machine imprinted signatures conform to specimens held by the registrar of Warrants.

(c) Persons who hold Warrants and have not registered the Warrants in their own names and wish to exercise the Warrants may incur additional costs and expense in connection with any expedited re-registration of the Warrants prior to the transfer or exercise of the Warrants, particularly during the period commencing ten Stock Exchange trading days prior to and including the last day for subscription, or such earlier date as provided in the Instrument.

(d) In addition, since the Warrants will be admitted to CCASS, so far as applicable laws or regulations of relevant regulatory authorities, terms of the Instrument and circumstances permit, the Company may determine the last trading day of the Warrants to be on a date falling at least three Stock Exchange trading days prior to the last day for subscription or such earlier date as provided in the Instrument.

6. Purchase and cancellation

The Company or any of the Subsidiaries (as defined in the Instrument) may at any time repurchase Warrants:

(a) in the open market or by tender (available to all Warrantholders alike) at any price; or

(b) by private treaty at a price per Warrant, exclusive of expenses, not exceeding 110% of the last closing price on the Stock Exchange per Warrant for one or more board lots of Warrants prior to the date of repurchase of the Warrants on the Stock Exchange,

but not otherwise. All Warrants repurchased as aforesaid shall be cancelled forthwith and may not be re-issued or re-sold.

7. Meetings of the Warrantholders and modification of rights

(a) The Instrument contains provisions for convening meetings of Warrantholders to consider any matter affecting the interests of Warrantholders, including the modification by a Special Resolution (as defined in the Instrument) of the provisions of the Instrument and/or of the Conditions (as defined in the Instrument). A Special Resolution duly passed at any such meeting will be binding on the Warrantholders, whether present or not.

(b) All or any of the rights for the time being attached to the Warrants (including any of the provisions of the Instrument) may from time to time, subject to sub-paragraph (a) above (whether or not the Company is being wound up), be altered or abrogated (including, but without prejudice to that generality by waiving compliance with, or by waiving or authorizing any past or proposed breach of, any of the provisions of the Conditions and/or the Instrument) and prior sanction of a Special Resolution shall be necessary and sufficient to effect such alteration or abrogation and effected only by deed poll executed by the Company and expressed to be supplemental to the Instrument.

(c) Where a Warrantholder is a recognised clearing house (within the meaning of the Securities and Futures Ordinance (Cap. 571 of the Laws of Hong Kong)) or its nominee(s), and, in each case, being a corporation, it may authorise such person(s) as it thinks fit to act as its representative(s) or proxy(ies) at any meeting of Warrantholders or at any meeting of any class of Warrantholders provided that, if more than one person is so authorised, the authorisation or proxy form shall specify the number of (and, if relevant, the class of) Warrants in respect of which each such person is so authorised. The person so authorised shall be entitled to exercise the same rights and powers as if such person was the registered holder of the Warrants held by the recognised clearing house (or its nominee) in respect of the number (and, if relevant, the class) of Warrants specified in the relevant authorisation.

(d) At any such meeting two or more persons holding Warrants and/or being proxies and being or representing in the aggregate the holders of not less than 10% in value of the Subscription Rights for the time being outstanding and exercisable shall (except for the purpose of passing a Special Resolution (as defined in the Instrument)) form a quorum for the transaction of business and no business (other than the choosing of a chairman) shall be transacted at any meeting unless the requisite quorum is present at the commencement of any such meeting. The quorum at any such meeting for the passing of a Special Resolution (as defined in the Instrument) shall be two or more persons holding Warrants and/or being proxies and being or representing in the aggregate the holders of not less than one third in value of the Subscription Rights for the time being outstanding and exercisable.

8. Closure of register of Warrantholders

The registration of transfers of Warrants may be suspended and the register of Warrantholders may be closed at such times and for such period as the Directors may from time to time direct, provided that registration may not be suspended or such register be closed for a period longer in aggregate than 30 days in any one year. Any transfer or exercise of the Subscription Rights attaching to the Warrants made while the register of Warrantholders is closed shall, as between the Company and the person claiming under the relevant transfer of Warrants or, as the case may be, as between the Company and the Warrantholder who has so exercised the Subscription Rights attaching to his/her/its Warrants (but not otherwise), be considered as made immediately after the re-opening of the register of Warrantholders.

9. Overseas Warrantholders

The Instrument and the Conditions contain provisions restricting the rights of Warrantholders who are resident in or nationals of a Restricted Jurisdiction from exercising the Subscription Rights attaching to any Warrants held by such Warrantholders. "Restricted Jurisdiction" is defined as including the United States of America, any of its territories or possessions, the United Kingdom, Canada, any jurisdiction under the laws of which an exercise of Subscription Rights attached to the Warrants held by a Warrantholder who is national or resident thereof or the performance by the

Company of the obligations expressed to be carried out lawfully without the Company first having taken certain actions in such jurisdiction, and any other country, state or territory nominated by the Directors from time to time (Warrantholders will be notified of any such nomination as soon as practicable after it has been made).

10. Replacement of Warrant certificates

If a Warrant certificate is mutilated, defaced, lost or destroyed, it may, at the discretion of the Company, be replaced at the principal office of the registrar for the time being of the Warrants (unless the Directors otherwise determine) on payment of such costs as may be incurred in connection therewith and on such terms as to evidence, indemnity and/or security as the Company may require and on payment of such fee not exceeding HK$2.50 (or such other amount as may from time to time be permitted under the rules prescribed by the Stock Exchange) as the Company may determine. Mutilated or defaced Warrant certificates must be surrendered before replacements will be issued.

In case of lost Warrant certificates, Sections 71A(2), (3), (4), (6), (7) and (8) of the Companies Ordinance (Chapter 32 of the Laws of Hong Kong) shall apply as if "shares" referred to therein include Warrants.

11. Protection of Subscription Rights

The Instrument contains certain undertakings by and restrictions on the Company designed to protect the Subscription Rights.

12. Winding up of the Company

If an effective resolution is passed during the Subscription Period for the voluntary winding-up of the Company; then:

(a) if such winding up is for the purpose of reconstruction or amalgamation pursuant to a scheme of arrangement to which the Warrantholders, or some persons designated by them for such purpose by a Special Resolution (as defined in the Instrument), shall be a party or in conjunction with which a proposal is made to the Warrantholders and is approved by a Special Resolution, the terms of such scheme of arrangement or (as the case may be) proposal shall be binding on all the Warrantholders; and

(b) in the event a notice is given by the Company to its shareholders to convene a general meeting for the purposes of considering and, if thought fit, approving a resolution to voluntarily wind-up the Company, the Company shall as soon as practicable give notice thereof to each Warrantholder (or in the case of joint Warrantholders, the Warrantholder whose name stands first in the register of the Warrantholders) and thereupon, every Warrantholder shall be entitled by irrevocable surrender of his/her/its Warrant certificate(s) to the registrar for the time being of the Warrants (such surrender to occur not less than two business days prior to the date of the proposed general meeting referred to above) with the Subscription Form(s) duly completed and signed, together with payment of the exercise moneys or the relative portion thereof, to exercise the Subscription Rights represented by such Warrants and the Company shall, as soon as practicable and in any event not later than the day immediately preceding the date of the proposed general meeting, allot such number of new Shares to the Warrantholder which fall to be issued pursuant to the exercise of the Subscription Rights represented by such Warrants. The Company shall give notice to the Warrantholders of the passing of such resolution within seven days after the passing thereof.

Subject to the foregoing, if the Company is wound up, all Subscription Rights which have not been exercised at the date of passing such resolution shall lapse and the Warrant certificates shall cease to be valid for any purpose.

13. Distribution and further issues of securities by the Company

Save as referred to above, Warrantholders will not be entitled as of right to participate in any distributions or further issues of securities by the Company prior to exercise of Subscription Rights attaching to the Warrants. However, as referred to above, the Warrant certificates will incorporate provisions relating to the adjustment of the Subscription Price in such circumstances and certain restrictions on the power of the Company to make such distributions and issues.

14. Call

If at any time during the Subscription Period, the aggregate number of Warrants which have not been exercised carry rights to subscribe for Shares are equal to or less than 10% of the amount of exercise moneys attached to the aggregate of all the Warrants issued under the Instrument, the Company may, on giving not less than three calendar months' notice to the Warrantholders, require the Warrantsholders either to exercise their Subscription Rights represented thereby or to allow the Warrants held by them to lapse. On expiry of such notice, all unexercised Warrants will be automatically cancelled without compensation to any Warrantholder(s) or person(s) claiming through or under them.

15. Further issues

The Company shall be at liberty to issue further warrants or other securities convertible into, exchangeable for or carrying rights to subscribe for Shares in such manner and on such terms as it sees fit, provided that it is in accordance with the Listing Rules.

16. Undertakings by the Company

The Company has undertaken in the Instrument that, amongst other matters:

(a) it will use its best endeavours to procure that at all times during the Subscription Period the Warrants may be dealt in on the Stock Exchange (save that this obligation will lapse in the event that the listing of the Warrants on the Stock Exchange is withdrawn following an offer for all or any of the Warrants (whether by way of proposal of the Warrantholders or by way of a scheme of arrangement or otherwise));

(b) it will use its best endeavours to procure that all new Shares may, upon allotment or as soon as reasonably practicable thereafter, be dealt in on the Stock Exchange (save that this obligation will lapse in the event that the listing of the Shares on the Stock Exchange is withdrawn following an offer for all or any of the Shares (whether by way of a scheme of arrangement or otherwise) where a like offer is extended to Warrantholders or to holders of Shares issued on exercise of the Warrants during the period of the offer (whether by way of proposal of the Warrantholders or by way of a scheme of arrangement or otherwise);

(c) it will send to each Warrantholder (or, in the case of joint Warrantholders, to the Warrantholder whose name stands first in the register of Warrantholders in respect of the Warrant(s) held by such joint Warrantholders), at the same time as the same are sent to the holders of Shares, its audited accounts and all other notices, reports and communications despatched by it to the holders of the Shares generally; and

(d) it will pay all stamp and capital duties, registration fees or similar charges (whether in Hong Kong, the Cayman Islands or elsewhere), if any, payable in respect of the execution of the Instrument, the creation and initial issue of the Warrants in registered form, the exercise of the Subscription Rights and the issue of new Shares upon exercise of the Subscription Rights.

17. Notices

The Instrument contains provisions relating to notices to be given to Warrantholders.

18. Governing law

The Instrument and the Warrants are governed by and will be construed in accordance with the laws of Hong Kong.

A. FURTHER INFORMATION ABOUT THE COMPANY AND ITS SUBSIDIARIES

1. Establishment of the Company

The Company was incorporated in the Cayman Islands under the Companies Law as an exempted company on 10th November, 2004. The Company has established its principal place of business in Hong Kong at Room 1106-8, Riley House, 88 Lei Muk Road, Kwai Chung, New Territories, Hong Kong and has registered as an oversea company in Hong Kong under Part XI of the Companies Ordinance, with Mr. Lam WM and Mr. Chan appointed as the authorised representatives of the Company for acceptance of service of process and notices on behalf of the Company in Hong Kong.

As the Company was incorporated in the Cayman Islands, it operates subject to the relevant laws of the Cayman Islands and to its constitution documents, which comprise a memorandum of association and articles of association. A summary of various provisions of the constitution of the Company and relevant aspects of the Cayman Islands company law is set out in Appendix VI to this prospectus.

2. Changes in share capital of the Company

(a) The authorised share capital of the Company as at the date of its incorporation was HK$500,000 divided into 500,000,000 shares of HK$0.001 each, of which one nil-paid Share was transferred from Codan Trust Company (Cayman) Limited to Mr. Lam WM and one Share was allotted and issued nil-paid to Mr. Tam on 19th November, 2004.

(b) On 23rd March, 2005, in consideration of the acquisition by the Company of the entire issued share capital of Asia Pilot as to 1 share from Beaute, the Company allotted and issued 58,399,998 Shares to Beaute, all credited as fully paid. In addition, the Company credited as fully paid at par the 2 nil-paid Shares then held by Mr. Lam WM and Mr. Tam which were then transferred to Beaute.

(c) On 23rd March, 2005, the Company allotted and issued 9,600,000 Shares to Beaute and 4,800,000 Shares to Champion Sight at the direction of Great Incentive and Mr. Chan respectively, all credited as fully paid.

(d) On 23rd March, 2005, each of Achieve Best and Realchamp subscribed for 13,600,000 Shares in the Company for cash at par.

(e) On 29th April, 2005, written resolutions of all the Shareholders were passed pursuant to which the authorised share capital of the Company was increased from HK$500,000 to HK$1,000,000 by the creation of an additional 500,000,000 Shares.

(f) Assuming the Share Offer becomes unconditional and the issue of the Shares pursuant to the Share Offer and the Capitalisation Issue is made, but taking into no account of any Shares which may fall to be issued upon the exercise of any options which have been granted under the Pre-IPO Share Option Scheme or may be granted under the Share Option Scheme or any Shares which may fall to be allotted and issued upon the exercise of the subscription rights attaching to the Warrants, the authorised share capital of the Company will be HK$1,000,000 divided into 1,000,000,000 Shares and the issued share capital of the Company will be HK$400,000 divided into 400,000,000 Shares, all fully paid or credited as fully paid, with 600,000,000 Shares remaining unissued. Other than pursuant to any options which have been granted under the Pre-IPO Share Option Scheme or may be granted under the Share Option Scheme or any Shares which may fall to be allotted and issued upon the exercise of the subscription rights attaching to the Warrants, there is no present intention to issue any part of the authorised but unissued share capital of the Company and, without the prior approval of the Shareholders in general meeting, no issue of Shares will be made which would effectively alter the control of the Company.

Save as aforesaid and as mentioned in the paragraph headed "Written resolutions of all the Shareholders passed on 27th May, 2005" below, there has been no alteration in the share capital of the Company since its incorporation.

3. Written resolutions of all the Shareholders passed on 27th May, 2005

Pursuant to the written resolutions of all the Shareholders passed on 27th May, 2005:

(a) conditional upon the same conditions as stated in the paragraph headed "Conditions of the Share Offer" in the section headed "Structure of the Share Offer" in this prospectus:

(i) the Share Offer was approved and the Directors were authorised to allot and issue the Offer Shares (with Warrants) pursuant to the Share Offer;

(ii) the instrument constituting the Warrants and the creation of the Warrants was approved and the Directors were authorised to issue the Warrants by way of bonus issue to all the Shareholders whose names appear on the register of members of the Company as at completion of the Share Offer and the Capitalisation Issue in the proportion of one Warrant for every four Shares;

(iii) conditional also upon the share premium account of the Company being credited as a result of the Share Offer, an amount of HK$200,000 which will then be standing to the credit of the share premium account of the Company be capitalised and applied to pay up in full at par a total of 200,000,000 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 29th April, 2005, that is Achieve Best, Beaute, Realchamp and Champion Sight, or any of them may direct, in proportion, as nearly as possible without involving the issue of fractions of Shares, to their then existing respective shareholdings in the Company, and the Directors were authorised to allot and issue such Shares as aforesaid and to give effect to the Capitalisation Issue and the Shares to be allotted and issued shall, save for the entitlements to the Capitalisation Issue, rank pari passu in all respects with all existing Shares;

(iv) the rules of the Pre-IPO Share Option Scheme were approved and adopted and the Directors were authorised to grant options to subscribe for Shares thereunder and to allot and issue Shares pursuant thereto and to take all such steps as they consider necessary or desirable to implement the Pre-IPO Share Option Scheme including without limitation: (aa) administering the Pre-IPO Share Option Scheme; (bb) modifying and/or amending the Pre-IPO Share Option Scheme from time to time provided that such modification and/or amendment is effected in accordance with the provisions of the Pre-IPO Share Option Scheme relating to modification and/or amendment and the requirement of the Listing Rules (if applicable); (cc) granting options under the Pre-IPO Share Option Scheme and issuing and allotting from time to time any Shares pursuant to the exercise of the options that may be granted under the Pre-IPO Share Option Scheme; and (dd) making application at the appropriate time or times to the Stock Exchange for the listing of, and permission to deal in, any Shares or any part thereof that may hereafter from time to time be issued and allotted pursuant to the exercise of the options granted under the Pre-IPO Share Option Scheme; and

(v) the rules of the Share Option Scheme were approved and adopted and the Directors were authorised to grant options to subscribe for Shares thereunder and to allot and issue Shares pursuant thereto and to take all such steps as they consider necessary or desirable to implement the Share Option Scheme including without limitation: (aa) administering the Share Option Scheme; (bb) modifying and/or amending the Share Option Scheme from time to time provided that such modification and/or amendment is effected in accordance with the provisions of the Share Option Scheme relating to modification and/or amendment and the requirement of the Listing Rules; (cc) granting options under the Share Option Scheme and issuing and allotting from time to time any Shares pursuant to the exercise of the options that may be granted under the Share Option Scheme with an aggregate nominal value not exceeding 10% of the total nominal value of the share capital of the Company in issue on the Listing Date; and (dd) making application at the appropriate time or times to the Stock Exchange for the listing of, and permission to deal in, any Shares or any part thereof that may hereafter from time to time be issued and allotted pursuant to the exercise of the options granted under the Share Option Scheme;

(b) a general unconditional mandate was given to the Directors to exercise all the powers of the Company to allot, issue and deal with (otherwise than by way of rights issue, scrip dividend or an issue of shares upon the exercise of any subscription rights attached to any warrants of the Company or pursuant to the exercise of the options which have been granted under the Pre-IPO Share Option Scheme or may be granted under the Share Option Scheme or other similar arrangements) Shares with an aggregate nominal value not exceeding the sum of:

(i) 20% of the aggregate nominal value of the share capital of the Company in issue and to be issued pursuant to the Share Offer and the Capitalisation Issue; and

(ii) the aggregate nominal amount of Shares repurchased under the authority granted to the Directors as referred to in paragraph headed "Repurchase of Securities by the Company" in this Appendix, until the conclusion of the next annual general meeting of the Company, the expiration of the period within which the next annual general meeting of the Company is required by the Articles or any applicable law to be held, or the revocation or variation by an ordinary resolution of the Shareholders in a general meeting, whichever is earlier;

(c) a general unconditional mandate was given to the Directors authorising them to exercise all powers of the Company to repurchase on the Stock Exchange, 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, such numbers of securities of the Company that represent up to 10% of the aggregate nominal amount of the share capital of the Company in issue and to be issued pursuant to the Share Offer and the Capitalisation Issue and up to 10% of the amount of Warrants in issue immediately following completion of the Share Offer and the Capitalisation Issue, until the conclusion of the next annual general meeting of the Company, the expiration of the period within which the next annual general meeting of the Company is required by the Articles or any applicable law to be held, or the revocation or variation by an ordinary resolution of the Shareholders in a general meeting, whichever is earlier; and

(d) the general unconditional mandate mentioned in paragraph (b) above was extended by the addition to the aggregate nominal value of the share capital of the Company which may be allotted or agreed conditionally or unconditionally to be allotted by the Directors pursuant to such authority granted thereunder of any amount representing the aggregate nominal value of the share capital of the Company repurchased by the Company pursuant to the mandate to repurchase securities referred to in paragraph (c) above provided that such extended amount shall not exceed 10% of the aggregate nominal value of the share capital of the Company in issue and to be issued pursuant to the Share Offer and the Capitalisation Issue.

B. CORPORATE REORGANISATION

The companies comprising the Enlarged Group underwent a reorganisation to rationalise the Enlarged Group's corporate structure in preparation for the listing of the Shares and the Warrants on the Stock Exchange pursuant to which the Company became the holding company of the Enlarged Group.

The Reorganisation involved the following:

Incorporation of the Company

(a) The Company was incorporated on 10th November, 2004.

(b) On 19th November, 2004, one nil-paid Share was transferred from Codan Trust Company (Cayman) Limited to Mr. Lam WM and one nil-paid Share was allotted and issued to Mr. Tam.

Incorporation of holding companies

(a) On 28th October, 2004, Apex Prima was incorporated in the BVI with limited liability with an authorised share capital of US$50,000 divided into 50,000 shares of US$1.00 each, one share of which was issued and wholly and beneficially owned by Mr. Lam WM.

(b) On 28th October, 2004, Achieve Best was incorporated in the BVI with limited liability with an authorised share capital of US$50,000 divided into 50,000 shares of US$1.00 each, one share of which was issued and wholly and beneficially owned by Mr. Lam WM.

(c) On 28th October, 2004, Potentasia was incorporated in the BVI with limited liability with an authorised share capital of US$50,000 divided into 50,000 shares of US$1.00 each, one share of which was issued and wholly and beneficially owned by Mr. Tam.

(d) On 28th October, 2004, Realchamp was incorporated in the BVI with limited liability with an authorised share capital of US$50,000 divided into 50,000 shares of US$1.00 each, one share of which was issued and wholly and beneficially owned by Mr. Tam.

(e) On 28th October, 2004, Beaute was incorporated in the BVI with limited liability with an authorised share capital of US$50,000 divided into 50,000 shares of US$1.00 each, two shares of which were issued with one share legally and beneficially owned by Apex Prima and one share legally and beneficially owned by Potentasia.

(f) On 28th October, 2004, Champion Sight was incorporated in the BVI with limited liability with an authorised share capital of US$50,000 divided into 50,000 shares of US$1.00 each, one share of which was issued and wholly and beneficially owned by Mr. Chan.

Incorporation of subsidiary companies

(a) On 21st July 2004, Asia Pilot was incorporated in the BVI with limited liability with an authorised share capital of US$50,000 divided into 50,000 shares of US$1.00 each, one share of which was issued and wholly and beneficially owned by Beaute.

(b) On 5th August, 2004, Sky Ocean was incorporated in the BVI with limited liability with an authorised share capital of US$50,000 divided into 50,000 shares of US$1.00 each, one share of which was issued and wholly and beneficially owned by Kenford.

Reorganisation of the group companies

(a) On 23rd March, 2005, pursuant to the sale and purchase agreement and documents referred to in items (a) to (d) of the paragraph headed "Summary of material contracts" in this Appendix, Asia Pilot acquired from Mr. Lam WM and Mr. Tam the entire issued share capital of Kenford as to 5,000 shares from Mr. Lam WM and 5,000 shares from Mr. Tam in consideration of which Beaute allotted and issued 1 share to Apex Prima and 1 share to Potentasia at the direction of Mr. Lam WM and Mr. Tam respectively, all credited as fully paid.

(b) On 23rd March, 2005, pursuant to the reorganisation agreement and documents referred to in items (e) to (f) of the paragraph headed "Summary of material contracts" in this Appendix, the Company acquired the entire issued capital of Asia Pilot as to 1 share from Beaute, in consideration of which the Company allotted and issued 58,399,998 Shares to Beaute, all credited as fully paid and credited as fully paid at par the 2 nil-paid Shares then held by Mr. Lam WM and Mr. Tam which were then transferred to Beaute.

(c) On 23rd March, 2005, pursuant to the sale and purchase agreement and documents referred to in items (g) to (k) of the paragraph headed "Summary of material contracts" in this Appendix, Sky Ocean acquired from Great Incentive, Mr. Lam WH and Mr. Chan the entire issued share capital of KARIO as to 5,000 shares from Great Incentive, 2,500 shares from Mr. Lam WH and 2,500 shares from Mr. Chan, in consideration of which (i) Sky Ocean paid the consideration of HK$4,800 to Mr. Lam WH in cash and (ii) the Company allotted and issued 9,600,000 Shares to Beaute and 4,800,000 Shares to Champion Sight at the direction of Great Incentive and Mr. Chan respectively, all credited as fully paid.

Adoption of the Articles and increase in authorised share capital

On 29th April, 2005, written resolutions of all the Shareholders were passed pursuant to which:

(a) the Company approved and adopted the Articles; and

(b) the authorised share capital of the Company was increased from HK$500,000 to HK$1,000,000 by the creation of an additional 500,000,000 Shares to rank *pari passu* with the existing Shares in all respects.

C. SUBSIDIARIES OF THE COMPANY

1. Investments in subsidiaries

The subsidiaries of the Company are referred to in the accountant's report, the text of which is set forth in Appendix I to this prospectus.

2. Changes in share capital of subsidiaries

(a) On 23rd March, 2005, Asia Pilot acquired from Mr. Lam WM and Mr. Tam the entire issued share capital of Kenford as to 5,000 shares from Mr. Lam WM and 5,000 shares from Mr. Tam in consideration of which Beaute allotted and issued 1 share to Apex Prima and 1 share to Potentasia at the direction of Mr. Lam WM and Mr. Tam respectively, all credited as fully paid.

(b) On 23rd March, 2005, Sky Ocean acquired from Great Incentive, Mr. Lam WH and Mr. Chan the entire issued share capital of KARIO as to 5,000 shares from Great Incentive, 2,500 shares from Mr. Lam WH and 2,500 shares from Mr. Chan, in consideration of which (i) Sky Ocean paid the consideration of HK$4,800 to Mr. Lam WH in cash; and (ii) the Company allotted and issued 9,600,000 Shares to Beaute and 4,800,000 Shares to Champion Sight at the direction of Great Incentive and Mr. Chan respectively, all credited as fully paid.

Save as disclosed herein and in the paragraph headed "Corporate reorganisation" 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 issue of this prospectus.

D. REPURCHASE OF SECURITIES BY THE COMPANY

This section includes information relating to the repurchases of securities, including information required by the Stock Exchange to be included in this prospectus concerning such repurchase.

1. Relevant Legal and Regulatory Requirements

The Listing Rules permit Shareholders to grant the Directors a general mandate to repurchase securities that are listed on the Stock Exchange. Such mandate is required to be given by way of an ordinary resolution passed by the Shareholders in a general meeting.

(a) Shareholders' approval

All proposed repurchases of securities (which must be fully paid up in the case of Shares) by the Company on the Stock Exchange must be approved in advance by ordinary resolutions of the Shareholders in a general meeting either by way of general mandate or by specific approval of a particular transaction.

Pursuant to a written resolution passed by all the Shareholders on 27th May, 2005, the Directors were granted a general unconditional mandate to repurchase up to 10% of the aggregate nominal amount of the share capital of the Company in issue as at the Listing Date and up to 10% of the amount of Warrants in issue as at the Listing Date. This mandate will expire at the earliest of (i) the conclusion of the next annual general meeting of the Company; (ii) the date by which the next annual general meeting of the Company is required by any applicable law or the Articles to be held; or (iii) such mandate being revoked, varied or renewed by ordinary resolution of the Shareholders in a general meeting (the "Relevant Period").

(b) Source of funds

Repurchases of securities of the Company listed on the Stock Exchange must be funded out of funds legally available for the purpose in accordance with the Articles and the applicable laws of the Cayman Islands. The Company may not repurchase its own securities on the Stock Exchange for a consideration other than cash or settlement otherwise than in accordance with the trading rules of the Stock Exchange from time to time. Any repurchase of Shares by the Company may be made out of funds legally permitted to be utilised in this connection, including profits of the Company or out of proceeds of a fresh issue of Shares made for that purpose or, if so authorised by the Articles and subject to the provisions of the Companies Law, out of capital. Any premium payable on a repurchase over the par value of the Shares to be purchased must be paid out of profits of the Company or out of the Company's share premium account, or if so authorised by the Articles and subject to the provisions of the Companies Law, out of capital.

2. Reasons for Repurchases

The Directors believe that it is in the best interests of the Shareholders and the Company for the Directors to have general authority to execute repurchases of its own securities in the market. Such repurchases may, depending on market conditions and funding arrangements at the time, lead to an enhancement of the net asset value per Share and/or earnings per Share and will only be made where the Directors believe that such repurchases will benefit the Company and the Shareholders.

3. Funding of Repurchases

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

On the basis of the current financial position as disclosed in this prospectus and taking into account the current working capital position of the Company, the Directors believe that, if the repurchase mandate is exercised in full, it might have a material adverse effect on the working capital and/or the gearing position of the Company 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 or the gearing levels of the Company which in the opinion of the Directors are from time to time appropriate for the Company.

The exercise in full of the current repurchase mandate, on the basis of 400,000,000 Shares and Warrants conferring rights to subscribe up to HK$30,000,000 in aggregate for Shares in issue immediately after the completion of the Share Offer and the Capitalisation Issue (not taking into account of any Shares which may be issued upon the exercise of any options that have been granted under the Pre-IPO Share Option Scheme or may be granted under the Share Option Scheme or the subscription rights attached to the Warrants), could accordingly result in up to 40,000,000 Shares and Warrants conferring rights to subscribe up to HK$3,000,000 in aggregate for Shares being repurchased by the Company during the Relevant Period.

4. General

None of the Directors nor, to the best of their knowledge having made all reasonable enquiries, any of their associates has any present intention to sell any of the 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 Listing Rules and the applicable laws of the Cayman Islands.

If, as a result of any repurchase of securities, a Shareholder's proportionate interest in the voting rights in the Company is increased, 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 of the Shareholders' interest, could obtain or consolidate control of the Company and may become obliged to make a mandatory offer in accordance with rule 26 of the Takeovers Code and the provision may apply as a result of any such increase. The Directors are not aware of any consequences of repurchases which would arise under the Takeovers Code.

The Company has not made any repurchases of its own securities in the past six months.

No connected person as defined by the Listing Rules has notified the Company that he/she has a present intention to sell his/her Shares and/or Warrants to the Company, or has undertaken not to do so, if the repurchase mandate is exercised.

E. FURTHER INFORMATION ABOUT THE BUSINESS OF THE ENLARGED GROUP

1. Summary of material contracts

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

(a) a sale and purchase agreement dated 23rd March, 2005 entered into between Mr. Lam WM, Mr. Tam and Asia Pilot pursuant to which Asia Pilot acquired from Mr. Lam WM and Mr. Tam an aggregate of 10,000 shares of HK$100 each in the capital of Kenford, representing the entire issued share capital of Kenford, for an aggregate consideration of HK$102,397,000;

(b) two sets of instruments of transfer and one set of bought and sold notes all dated 23rd March, 2005 between Mr. Tam and Asia Pilot relating to the transfer by Mr. Tam to Asia Pilot of 5,000 shares in Kenford (as to 4,999 shares to Asia Pilot and 1 share to Sky Ocean as trustee of Asia Pilot), for a consideration of HK$51,198,500;

(c) instrument of transfer and bought and sold notes all dated 23rd March, 2005 between Mr. Lam WM and Asia Pilot relating to the transfer by Mr. Lam WM to Asia Pilot of 5,000 shares in Kenford, representing 50% of the issued share capital of Kenford, for a consideration of HK$51,198,500;

(d) a declaration of trust dated 23rd March, 2005 whereby Sky Ocean declared that it held the 1 share in Kenford as trustee for Asia Pilot;

(e) a reorganisation agreement dated 23rd March, 2005 entered into between, inter alia, the Company and Beaute pursuant to which the Company acquired the entire issued capital of Asia Pilot as to 1 share of US$1.00 each in the capital of Asia Pilot ("Asia Pilot Share"), in consideration of an allotment and issue by the Company of 58,399,998 Shares to Beaute, all credited as fully paid;

(f) instrument of transfer dated 23rd March, 2005 between the Company and Beaute relating to the transfer by Beaute to the Company of 1 Asia Pilot Share for a consideration of HK$102,397,000;

(g) a sale and purchase agreement dated 23rd March, 2005 entered into between Great Incentive, Mr. Lam WH and Mr. Chan and Sky Ocean pursuant to which Sky Ocean acquired the entire issued share capital of KARIO as to 5,000 shares from Great Incentive, 2,500 shares from Mr. Lam WH and 2,500 shares from Mr. Chan, in consideration of (i) payment of HK$4,800 by Sky Ocean to Mr. Lam WH in cash and (ii) an allotment and issue by the Company of 9,600,000 Shares to Beaute and 4,800,000 Shares to Champion Sight at the direction of Great Incentive and Mr. Chan respectively, all credited as fully paid;

(h) instrument of transfer and bought and sold notes both dated 23rd March, 2005 between Great Incentive and Sky Ocean relating to the transfer by Great Incentive to Sky Ocean of 5,000 shares in KARIO, for a consideration of HK$9,600;

(i) instrument of transfer and bought and sold notes both dated 23rd March, 2005 between Mr. Lam WH and Sky Ocean relating to the transfer by Mr. Lam WH to Sky Ocean of 2,500 shares in KARIO, for a consideration of HK$4,800;

(j) two sets of instruments of transfer and one set of bought and sold notes all dated 23rd March, 2005 between Mr. Chan and Sky Ocean whereby Mr. Chan transferred to Sky Ocean 2,500 shares in KARIO (as to 2,499 shares to Sky Ocean and 1 share to Asia Pilot as trustee of Sky Ocean), for a consideration of HK$4,800;

(k) a declaration of trust dated 23rd March, 2005 whereby Asia Pilot declared that it held the 1 share in KARIO as trustee for Sky Ocean;

(l) a subscription agreement dated 23rd March, 2005 entered into between Achieve Best, Realchamp and the Company for the subscription of 13,600,000 Shares and 13,600,000 Shares by Achieve Best and Realchamp respectively for a consideration of HK$13,600 and HK$13,600 respectively;

(m) a deed of indemnity dated 11th May, 2005 entered into between the Controlling Shareholders in favour of the Company;

(n) a deed of indemnity dated 28th May, 2005 entered into between the Controlling Shareholders in favour of the Company in respect of tax liabilities and other liabilities referred to in the paragraph headed "Indemnity" in the section headed "Other information" in this Appendix;

(o) a deed of non-competition undertaking dated 11th May, 2005 entered into between the Controlling Shareholders in favour of the Company;

(p) a deed of non-competition undertaking dated 27th May, 2005 entered into between the Controlling Shareholders in favour of the Company relating to regulation of competition issues between the Company and the Controlling Shareholders referred to in the paragraph headed "Non-competition undertaking" in the section headed "Business" in this prospectus;

(q) an underwriting and placing agreement dated 11th May, 2005 entered into between, inter alia, the Company, the Sponsors and the underwriters referred to therein; and

(r) the Underwriting Agreement.

2. Intellectual property rights of the Enlarged Group

As at the Latest Practicable Date, the following intellectual property rights are material to the business of the Group:

(a) Trademarks

As at the Latest Practicable Date, the Enlarged Group has registered the following trademarks:

Trademark	Place of registration	Class	Registration number	Registration date
KARIO	Hong Kong	11 *(Note 1)*	07040 of 2004	6th June, 2002
KARIO	Hong Kong	7 *(Note 2)*	07077 of 2004	6th June, 2002
KARIO	Hong Kong	10 *(Note 3)*	04117 of 2003	6th June, 2002
KARIO	PRC	7 *(Note 4)*	3203311	14th March, 2004
KARIO	PRC	10 *(Note 5)*	3203310	21st June, 2003

Notes:

1. Class 11 goods include:

   Apparatus for heating, steam generating, cooking, refrigerating, drying; hair dryers, steam facial apparatus (sauna); electric coffee makers; electric coffee filters; electric coffee percolators; electric kettles; electric waffle makers; electric cooking apparatus and installations; electric cooking utensils; electric toasters; electric cookers; microwave ovens; hot plates; electric cooking stoves; parts and fittings for all the aforesaid goods.

2. Class 7 goods include:

   Electric food preparation machines; electric kitchen machines; electric blenders; household fruit juice extractors; electric food processors; electric mixers; household vegetable cutters (machines); electric meat slicers; electric meat cutters; electric meat scrapers; electric meat grinders; electric meat choppers; electric knives; vacuum cleaners; electric ice crushers; parts and fittings for all the aforesaid goods.

3. Class 10 goods include:

   Electric massaging apparatus; electrically operated massagers; body massagers; foot massagers, manual massage apparatus and instruments, massage chairs, motor vibrated massage apparatus, thermal massage pads, gloves for massage; parts and fittings for all the aforesaid goods.

4. Class 7 goods include:

   Electric food preparation machines, household electric blenders; household fruit juice extractors, electric food processors, electric mixers (house appliance); household vegetable cutters (machines); household electric meat slicers; electric meat grinders; electric knives for household purposes; vacuum cleaners.

5. Class 10 goods include:

   Electric massaging apparatus; electrically operated massagers; body massagers; foot massagers, manual massage apparatus, massage chairs, motor vibrated massage apparatus, thermal massage pads, gloves for massage.

As at the Latest Practicable Date, the Enlarged Group has applied for registration of the following trademarks, the registration of which has not yet been granted:

Trademark	Place of application	Class	Application number	Application date
KARIO	PRC	11 *(Note 1)*	3203309	7th June, 2002
KARIO	The European Union	7, 10 and 11 *(Note 2)*	2729978	6th June, 2002
KENFORD KENFORD* KENFORD KENFORD*	Hong Kong	7,9,10, 11 and 35 *(Note 3)*	300364671	1st February, 2005
*	Hong Kong	7,9,10, 11 and 35 *(Note 3)*	300364662	1st February, 2005

* *colours brown and orange as elements of these marks*

Notes

1. Class 11 goods include:

   Hair dryers; hot air brushes, steam facial apparatus (sauna); dermacleansers; electric ice crushers; electric coffee makers; electric kettles; electric waffle makers; electric cooking utensils; electric toasters.

2. Class 7 goods include:

   Electric food preparation machines; electric kitchen machines; electric blenders; household fruit juice extractors; electric food processors; electric mixers; household vegetable cutters (machines); electric meat slicers; electric meat cutters; electric meat scrapers; electric meat grinders; electric meat choppers; electric knives; vacuum cleaners; parts and fittings for all the aforesaid goods.

Class 10 goods include:

Electric massaging apparatus; electrically operated massagers; body massagers; foot massagers, manual massage apparatus and instruments, massage chairs, motor vibrated massage apparatus, combined facial massage and cleaning apparatus, thermal massage pads, gloves for massage; parts and fittings for all the aforesaid goods.

Class 11 goods include:

Apparatus for heating, steam generating, cooking, refrigerating, drying; hair dryers; hot air brushes; steam facial apparatus (sauna); electric ice crushers; electric coffee makers; electric coffee filters; electric coffee precolators; electric kettles; electric waffle makers; electric cooking apparatus and installations; electric cooking utensils, electric toasters; electric cookers; microwave ovens; hot plates; electric cooking stoves; parts and fittings for all the aforesaid goods.

3. Class 7 goods include:

Machines and machine tools; motors and engines (except for land vehicles); incubators for eggs; egg breaking machines; electric knives; knife grinding machines; vacuum cleaners; electric mixers for mixing food; electric slicing machines; juice extracting machines; electric grinders for food preparation; ice crushing machines; cake moulding machines; electric cleaning instruments; sweeping machines; all included in Class 7.

Class 9 goods include:

Scientific, electric, photographic, optical, weighing, measuring and checking (supervision) apparatus and instruments; apparatus for recording, transmission or reproduction of sound or images; magnetic data carriers, recording discs; cash registers, calculating machines, data processing equipment and computers; electric hair curling irons, hair curling appliances being electrically heated, electric hair styling implements, hair waving tongs (electric hand implements), rechargeable hair curling tongs with brush and comb; all included in Class 9.

Class 10 goods include:

Surgical, medical, dental and veterinary apparatus and instruments, artificial limbs, eyes and teeth; orthopedic articles; suture materials; massage apparatus, massage chairs, rollers for foot massage, massage vibrators.

Class 11 goods include:

Apparatus for lighting, heating, steam generating, cooking, refrigerating, drying, ventilating, water supply and sanitary purposes; hair drying applicances; sterilizing apparatus; electric cooking utensils; coffee bean roasting machines; electric or pressure coffee makers; electric coffee pots; electric kettles; toasters; facial sauna apparatus; bathing appliances for personal use.

Class 35 services include:

Wholesaling and retailing services in relation to machines and machine tools, motors and engines (except for land vehicles), incubators for eggs, egg breaking machines, electric knives, knife grinding machines, vacuum cleaners, electric mixers for mixing food, electric slicing machines, juice extracting machines, electric grinders for food preparation, ice crushing machines, cake moulding machines, electric cleaning instruments, sweeping machines, scientific, electric, photographic, optical, weighing, measuring and checking (supervision) apparatus and instruments; apparatus for recording, transmission or reproduction of sound or images, magnetic data carriers, recording discs, cash registers, calculating machines, data processing equipment and computers, electric hair curling irons, hair curling appliances being electrically heated, electric hair styling implements, hair waving tongs (electric hand implements), rechargeable hair curling tongs with brush and combs, surgical, medical, dental and veterinary apparatus and instruments, artificial limbs, eyes and teeth, orthopedic articles, suture materials, massage apparatus, massage chairs, rollers for foot massage, massage vibrators, apparatus for lighting, heating, steam generating, cooking, refrigerating, drying, ventilating, water supply and sanitary purposes, hair drying appliances, steam hair styling implements, sterilizing apparatus, electric cooking utensils, coffee bean roasting machines, electric or pressure coffee makers, electric coffee pots, electric kettles, toasters, facial sauna apparatus, bathing appliances for personal use, import and export services; marketing and promotional services; arranging and conducting trade shows; direct mail advertising; advertising by mail order publications; department store services provided on-line via worldwide computer networks and the Internet.

(b) *Patents/Designs*

As at the Latest Practicable Date, the Enlarged Group has registered the following patents and/or designs:

Title of invention	Type of patent/design	Place of registration	Registration number	Registration date	End date of validity period/ Renewal due date
Luftbürste (Air Brush) mit Zubehör (Air Brush)# (AB-371)#	Design	Germany	40104025.9	12th July, 2001	29th April, 2006 (valid for an initial term of 5 years from application date ie. 30th April, 2001, and for a maximum period of 25 years)
頭髮成型器 (Air Brush)# (AB-371)#	Design	PRC	ZL 00341322.5	9th January, 2002	14th November, 2010 (valid for 10 years from application date ie. 15th November, 2000)
頭髮成型器 Hair Styler	Design	Hong Kong	0110534.5	10th April, 2001	9th April, 2006 (valid for an initial term of 5 years from registration date, and for a maximum period of 25 years)
頭髮成型器 (AB-369) (Air Brush)#	Design	PRC	ZL 01308389.9	27th February, 2002	7th June, 2011 (valid for 10 years from application date ie. 8th June, 2001)
頭髮成型器 Hair Styler (AB-369)#	Design	Hong Kong	0111604.5	22nd October, 2001	21st October, 2006 (valid for an initial term of 5 years from registration date, and for a maximum period of 25 years)

Title of invention	Type of patent/design	Place of registration	Registration number	Registration date	End date of validity period/ Renewal due date
Spritzdüse (Air Brush)# (AB-369)#	Design	Germany	40107683.0	28th January, 2002	21st August, 2006 (valid for an initial term of 5 years from application date ie. 22nd August, 2001, and for a maximum period of 25 years)
Luftbürste mit auswechselbaren Bürstenteilen (Air Brush)# (AB-368)#	Design	Germany	40107447.1	21st January, 2002	8th August, 2006 (valid for an initial term of 5 years from application date ie. 9th August, 2001, and for a maximum period of 25 years)
頭髮成型器 (Air Brush)# (AB-368)#	Design	PRC	ZL 01304817.1	14th November, 2001	27th February, 2011 (valid for 10 years from application date ie. 28th February, 2001)
頭髮成型器 Hair Styler (AB-368)#	Design	Hong Kong	0111605.8	22nd October, 2001	21st October, 2006 (valid for an initial term of 5 years from registration date, and for a maximum period of 25 years)
Frisiergerät und Zubehörteile hierfür (Air Brush)# (AB-364)#	Design	Germany	40009632.3	8th December, 2000	8th October, 2005 (valid for an initial term of 5 years from application date ie. 9th October, 2000, and for a maximum period of 25 years)
頭髮成型器 Hair setting device (AB-364)#	Design	Hong Kong	0011505.5	18th October, 2000	17th October, 2005 (valid for an initial term of 5 years from registration date, and for a maximum period of 25 years)

Title of invention	Type of patent/design	Place of registration	Registration number	Registration date	End date of validity period/ Renewal due date
頭髮成型器 (Air Brush)# (AB-364)#	Design	PRC	ZL 00327421.7	27th January, 2001	31st May, 2010 (valid for 10 years from application date ie. 1st June, 2000)
頭髮處理裝置 (Hair Treatment Device)# (AB-225)#	Invention	PRC	ZL 95118408.3	23rd January, 2002	14th September, 2015 (valid for 20 years from application date ie. 15th September, 1995)
吹風筒 Hair dryer (HD-327)#	Design	Hong Kong	0011508.1	18th October, 2000	17th October, 2005 (valid for an initial term of 5 years from registration date, and for a maximum period of 25 years)
吹風筒 Hair dryer (HD-326)#	Design	Hong Kong	0011509.3	18th October, 2000	17th October, 2005 (valid for an initial term of 5 years from registration date, and for a maximum period of 25 years)
吹風筒 Hair dryer (HD-325)#	Design	Hong Kong	0011510.5	18th October, 2000	17th October, 2005 (valid for an initial term of 5 years from registration date, and for a maximum period of 25 years)
足部按摩器 Foot massager	Design	Hong Kong	0011506.7	18th October, 2000	17th October, 2005 (valid for an initial term of 5 years from registration date, and for a maximum period of 25 years)
吹風筒A (Hair dryer A)# (HD-327)#	Design	PRC	ZL 00306794.7	4th November, 2000	29th April, 2010 (valid for 10 years from application date ie. 30th April, 2000)

Title of invention	Type of patent/design	Place of registration	Registration number	Registration date	End date of validity period/ Renewal due date
吹風筒B (Hair dryer B)# (HD-326)#	Design	PRC	ZL 00306795.5	18th November, 2000	29th April, 2010 (valid for 10 years from application date ie. 30th April, 2000)
吹風筒C (Hair dryer C)# (HD-325)#	Design	PRC	ZL 00306796.3	21st October, 2000	29th April, 2010 (valid for 10 years from application date ie. 30th April, 2000)
Haartrockner (Hair Dryer)# (HD-325 - HD-327)#	Design	Germany	40009340.5	17th November, 2000	21st September, 2005 (valid for an initial term of 5 years from application date ie. 22nd September, 2000, and for a maximum period of 25 years)
Foot Spa 多功能足部按摩器 (FB-366)#	Invention (Short-term Patent)	Hong Kong	HK1031165	25th May, 2001	9th November, 2008 (valid for an initial term of 4 years from application date ie. 10th November, 2000, and for a maximum period of 8 years)
多功能足部按摩器 (Foot Spa)#	Utility Model	PRC	ZL00243826.7	12th September, 2001	24th July, 2010 (valid for 10 years from application date ie. 25th July, 2000)
Multifunctional foot spa (FB-366)#	Invention Patent	U.S.	US 6,405,390 B2	18th June, 2002	17th December, 2005 (valid for an initial term of 3.5 years from registration date, and for a maximum period of 20 years from application date ie. 17th July, 2001)
足部按摩器 (Foot Spa)#	Design	PRC	ZL 00306274.0	1st December, 2000	15th May, 2010 (valid for 10 years from application date ie. 16th May, 2000)

Title of invention	Type of patent/design	Place of registration	Registration number	Registration date	End date of validity period/ Renewal due date
Multifunctional foot spa (FB-366)#	Invention Patent	U.K.	GB2368790	19th November, 2003	19th July, 2005 (valid for an initial term of 4 years from application date ie. 20th July, 2001, and for a maximum period of 20 years)
Multifunktionale Fußbadeeinrichtung (Multifunctional Foot spa)# (FB-366)#	Utility Model	Germany	20112359.2	22nd November, 2001	31st July, 2007 (valid for an initial term of 3 years from application date ie. 19th July, 2001, and for a maximum period of 10 years)
Fußbadeeinrichtung (Foot Spa)# (FB-366)#	Design	Germany	40010892.5	30th January, 2001	14th November, 2005 (valid for an initial term of 5 years from application date ie. 15th November, 2000, and for a maximum period of 25 years)
Hautreinigungsgerät (Derma cleanser)# (DC-502)#	Design	Germany	40107043.3	15th January, 2002	8th August, 2006 (valid for an initial term of 5 years from application date ie. 9th August, 2001, and for a maximum period of 25 years)
潔膚器 (DC-502) (Dermacleanser)#	Design	PRC	ZL 01308391.0	20th February, 2002	7th June, 2011 (valid for 10 years from application date ie. 8th June, 2001)
潔膚器 Dermal cleanser (HD-502)#	Design	Hong Kong	0111606.0	22nd October, 2001	21st October, 2006 (valid for an initial term of 5 years from registration date and for a maximum period of 25 years)

Title of invention	Type of patent/design	Place of registration	Registration number	Registration date	End date of validity period/ Renewal due date
Haartrockner mit Bürstenaufsatz (AB-515)#	Design	Germany	40206561.1	23rd August, 2002	1st August, 2007 (valid for an initial term of 5 years from application date ie. 2nd August, 2002, and for a maximum period of 25 years)
頭髮成型器 (AB515) (Air Brush (AB515))#	Design	PRC	ZL 02308771.4	6th November, 2002	29th April, 2012 (valid for 10 years from application date ie. 30th April, 2002)
頭髮成型器 (AB507) (Air Brush (AB507))#	Design	PRC	ZL 02329761.1	13th November, 2002	15th May, 2012 (valid for 10 years from application date ie. 16th May, 2002)
頭髮成型器 Hair styler	Design	Hong Kong	0211598.2	9th October, 2002	8th October, 2007 (valid for an initial term of 5 years from registration date, and for a maximum period of 25 years)
Spritzapparat	Design	Germany	40206560.3	23rd August, 2002	1st August, 2007 (valid for an initial term of 5 years from application date ie. 2nd August, 2002, and for a maximum period of 25 years)
吹風機 (Hairdryer)# (HD-505)#	Design	Hong Kong	0211596.8	9th October, 2002	8th October, 2007 (valid for an initial term of 5 years from registration date, and for a maximum period of 25 years)

Title of invention	Type of patent/design	Place of registration	Registration number	Registration date	End date of validity period/ Renewal due date
Fragrant Mannequin Hairdrier 吹香風的吹風機	Invention (Short-term patent)	Hong Kong	HK1033527	17th August, 2001	1st May, 2009 (valid for an initial term of 4 years from application date ie. 2nd May, 2001, and for a maximum period of 8 years)
吹香風的吹風機 (Fragrant Mannequin Hairdryer)#	Utility Model	PRC	ZL 00265234.X	21st November, 2001	11th December, 2010 (valid for 10 years from application date ie. 12th December, 2000)
Haartrockner zum Erzeugen angenehmer Düfte (Hairdryer for generating pleasant smells)#	Utility Model	Germany	20112702.4	25th October, 2001	31st August, 2007 (valid for an initial term of 3 years from application date ie. 1st August, 2001, and for a maximum period of 10 years)
Haartrockner (HD-505)#	Design	Germany	40206563.8	12th September, 2002	1st August, 2007 (valid for an initial term of 5 years from application date ie. 2nd August, 2002, and for a maximum period of 25 years)
吹風筒 Hair dryer (HD-391)#	Design	Hong Kong	0111610.8	22nd October, 2001	21st October, 2006 (valid for an initial term of 5 years from registration date, and for a maximum period of 25 years)
吹風筒 (HD-391) (Hair dryer (HD-391))#	Design	PRC	ZL 01308385.6	20th February, 2002	7th June, 2011 (valid for 10 years from application date ie. 8th June, 2001)

Title of invention	Type of patent/design	Place of registration	Registration number	Registration date	End date of validity period/ Renewal due date
Haartrockner (Hair dryer)# (HD-391)#	Design	Germany	40106885.4	14th January, 2002	31st July, 2006 (valid for an initial term of 5 years from application date ie. 1st August, 2001, and for a maximum period of 25 years)
吹風筒 Hair dryer (HD-390)#	Design	Hong Kong	0111609.6	22nd October, 2001	21st October, 2006 (valid for an initial term of 5 years from registration date, and for a maximum period of 25 years)
吹風機 (HD-390) (Hair dryer (HD-390))#	Design	PRC	ZL 01308392.9	20th February, 2002	7th June, 2011 (valid for 10 years from application date ie. 8th June, 2001)
Haartrockner (Hair dryer)# (HD-390)#	Design	Germany	40107449.8	21st January, 2002	8th August, 2006 (valid for an initial term of 5 years from application date ie. 9th August, 2001, and for a maximum period of 25 years)
吹風筒 (HD-386) (Hair dryer (HD-386))#	Design	PRC	ZL 01308390.2	20th February, 2002	7th June, 2011 (valid for 10 years from application date ie. 8th June, 2001)
吹風筒 Hair dryer (HD-386)#	Design	Hong Kong	0111608.4	22nd October, 2001	21st October, 2006 (valid for an initial term of 5 years from registration date, and for a maximum period of 25 years)

Title of invention	Type of patent/design	Place of registration	Registration number	Registration date	End date of validity period/ Renewal due date
Haartrockner (Hair dryer)# (HD-386)#	Design	Germany	40106968.0	17th January, 2002	29th July, 2006 (valid for an initial term of 5 years from application date ie. 30th July, 2001, and for a maximum period of 25 years)
吹風筒 (HD-384) (Hair dryer (HD-384))#	Design	PRC	ZL 01308388.0	27th February, 2002	7th June, 2011 (valid for 10 years from application date ie. 8th June, 2001)
吹風筒 Hair dryer (HD-384)#	Design	Hong Kong	0111607.2	22nd October, 2001	21st October, 2006 (valid for an initial term of 5 years from registration date, and for a maximum period of 25 years)
Haartrockner (Hair dryer)# (HD-384)#	Design	Germany	40106886.2	11th January, 2002	31st July, 2006 (valid for an initial term of 5 years from application date ie. 1st August, 2001, and for a maximum period of 25 years)
吹風筒 (HD-383) (Hair dryer (HD-383))#	Design	PRC	ZL 01350482.7	30th October, 2002	7th November, 2011 (valid for 10 years from application date ie. 8th November, 2001)
吹風筒 Hair dryer (HD-383)#	Design	Hong Kong	0111764.3	21st November, 2001	20th November, 2006 (valid for an initial term of 5 years from registration date, and for a maximum period of 25 years)

Title of invention	Type of patent/design	Place of registration	Registration number	Registration date	End date of validity period/ Renewal due date
Haartrockner (Hair dryer)# (HD-383)#	Design	Germany	40110380.3	18th June, 2002	23rd November, 2006 (valid for an initial term of 5 years from application date ie. 24th November, 2001, and for a maximum period of 25 years)
吹風機 (HD-518) (Hair dryer (HD-518))#	Design	PRC	ZL 02308773.0	6th November, 2002	29th April, 2012 (valid for 10 years from application date ie. 30th April, 2002)
Haartrockner (HD-518)#	Design	Germany	40206557.3	23rd August, 2002	1st August, 2007 (valid for an initial term of 5 years from application date ie. 2nd August, 2002, and for a maximum period of 25 years)
吹風機Hairdryer (HD-518)#	Design	Hong Kong	0211595.6	9th October, 2002	8th October, 2007 (valid for an initial term of 5 years from registration date, for a maximum period of 25 years)
碎冰機 (Ice crusher)# (IC-372)#	Design	PRC	ZL 00326638.9	3rd February, 2001	21st June, 2010 (valid for 10 years from application date ie. 22nd June, 2000)
碎冰機Ice crusher	Design	Hong Kong	0011507.9	18th October, 2000	17th October, 2005 (valid for an initial term of 5 years from registration date, and for a maximum period of 25 years)

Title of invention	Type of patent/design	Place of registration	Registration number	Registration date	End date of validity period/ Renewal due date
Eiscrusher (Ice crusher)# (IC-372)#	Design	Germany	40009571.8	6th December, 2000	10th October, 2005 (valid for an initial term of 5 years from application date ie. 11th October, 2000, and for a maximum period of 25 years)
碎冰機Ice crusher (IC-520)#	Design	Hong Kong	0211591.7	9th October, 2002	8th October, 2007 (valid for an initial term of 5 years from registration date, and for a maximum period of 25 years)
碎冰機 (IC520)	Design	PRC	ZL02308769.2	20th November, 2002	29th April, 2012 (valid for 10 years from application date ie. 30th April, 2002)
Dampfinhalator und Zubehörteile (Steam inhaler)# (SI-378)#	Design	Germany	40104084.4	22nd August, 2001	23rd April, 2006 (valid for an initial term of 5 years from application date ie. 24th April, 2001, and for a maximum period of 25 years)
蒸汽吸入及美容器 (Steam inhaler)# (SI-378)#	Design	PRC	ZL 00338520.5	5th September, 2001	21st November, 2010 (valid for 10 years from application date ie. 22nd November, 2000)
蒸汽吸入及美容器 Steam inhaling and beauty treatment apparatus (SI-378)#	Design	Hong Kong	0110535.8	10th April, 2001	9th April, 2006 (valid for an initial term of 5 years from registration date, and for a maximum period of 25 years)
吹風筒 (HD-506) (Hairdryer (HD-506))#	Design	PRC	ZL 01350483.5	7th August, 2002	7th November, 2011 (valid for 10 years from application date ie. 8th November, 2001)

Title of invention	Type of patent/design	Place of registration	Registration number	Registration date	End date of validity period/ Renewal due date
Haartrockner (HD-506)#	Design	Germany	40110237.8	25th June, 2002	23rd November, 2006 (valid for an initial term of 5 years from application date ie. 24th November, 2001, and for a maximum period of 25 years)
吹風筒 Hair dryer (HD-506)#	Design	Hong Kong	0111763.1	21st November, 2001	20th November, 2006 (valid for an initial term of 5 years from registration date, and for a maximum period of 25 years)
直髮器 (HS513) (Hair straightener (HS513))#	Design	PRC	ZL 02308768.4	20th November, 2002	29th April, 2012 (valid for 10 years from application date ie. 30th April, 2002)
Haarglättungsgerät (HS-513)#	Design	Germany	40206558.1	23rd August, 2002	1st August, 2007 (valid for an initial term of 5 years from application date ie. 2nd August, 2002, and for a maximum period of 25 years)
直髮器 Hair straightener (HS-513)#	Design	Hong Kong	0211599.4	9th October, 2002	8th October, 2007 (valid for an initial term of 5 years from registration date, and for a maximum period of 25 years)
吹風機 (HD512) (Hairdryer (HD512))#	Design	PRC	ZL 02329762.X	11th December, 2002	15th May, 2012 (valid for 10 years from application date ie. 16th May, 2002)

Title of invention	Type of patent/design	Place of registration	Registration number	Registration date	End date of validity period/ Renewal due date
吹風機 Hairdryer (HD-512)#	Design	Hong Kong	0211597.0	9th October, 2002	8th October, 2007 (valid for an initial term of 5 years from registration date, and for a maximum period of 25 years)
Haartrockner (HD-512)#	Design	Germany	40206564.6	12th September, 2002	1st August, 2007 (valid for an initial term of 5 years from application date ie. 2nd August, 2002, and for a maximum period of 25 years)
吹風機 Hairdryer (HD-516)#	Design	Hong Kong	0211592.9	9th October, 2002	8th October, 2007 (valid for an initial term of 5 years from registration date, and for a maximum period of 25 years)
Haartrockner mit Bürstenaufsatz (HD-516)#	Design	Germany	40206556.5	22nd August, 2002	1st August, 2007 (valid for an initial term of 5 years from application date ie. 2nd August, 2002, and for a maximum period of 25 years)
吹風機 (HD516) (Hairdryer (HD516))#	Design	PRC	ZL 02308770.6	11th December, 2002	29th April, 2012 (valid for 10 years from application date ie. 30th April, 2002)
吹風機風嘴 (Nozzle of hairdryer)# (HD-517)#	Design	PRC	ZL 02335418.6	7th May, 2003	29th April, 2012 (valid for 10 years from application date ie. 30th April, 2002)

Title of invention	Type of patent/design	Place of registration	Registration number	Registration date	End date of validity period/ Renewal due date
Haartrockner mit auswechselbarer Düse (HD-517)#	Design	Germany	40206554.9	22nd August, 2002	1st August, 2007 (valid for an inittial term of 5 years from application date ie. 2nd August, 2002, and for a maximum period of 25 years)
帶有活動手柄的吹風機 (HD-517)#	Utility Model	PRC	ZL 02241411.8	2nd July, 2003	14th July, 2012 (valid for 10 years from application date ie. 15th July, 2002)
吹風機 (HD517) (Hairdryer (HD517))#	Design	PRC	ZL 02308772.2	26th March, 2003	29th April, 2012 (valid for 10 years from application date ie. 30th April, 2002)
帶有多個集風孔的集風裝置及使用其的吹風機 (HD-517)#	Utility Model	PRC	ZL 02241412.6	2nd July, 2003	14th July, 2012 (valid for 10 years from application date ie. 15th July, 2002)
Air directing device having a plurality of air outlets and hairdryer with the same 帶有多個集風孔的集風裝置及使用其的吹風機	Invention (Short-term patent)	Hong Kong	HK1049579	25th April, 2003	9th October, 2006 (valid for an initial term of 4 years from application date ie. 9th October, 2002, and for a maximum period of 8 years)
Air directing device having a plurality of air outlets and hairdryer with the same (HD-517)#	Invention Patent	U.K.	GB2383532	17th December, 2003	4th September, 2006 (valid for an initial term of 4 years from application date ie. 5th September, 2002 and for a maximum period of 20 years)

Title of invention	Type of patent/design	Place of registration	Registration number	Registration date	End date of validity period/ Renewal due date
Hairdryer with a twistable handle 帶有活動手柄的吹風機	Invention (Short-term patent)	Hong Kong	HK1049568	25th April, 2003	9th October, 2006 (valid for an initial period of 4 years from application date ie. 9th October, 2002, and for a maximum period of 8 years)
Haartrockner mit drehbarem Griff (HD-517)#	Utility model	Germany	20216601.5	2nd January, 2003	31st October, 2005 (valid for an initial term of 3 years from application date ie. 23rd October, 2002, and for a maximum period of 10 years)
Luftleitvorrichtung mit einer Vielzahl von Luftauslässen und Haartrockner mit einer derartigen Vorrichtung (HD-517)#	Utility model	Germany	20216600.7	2nd January, 2003	31st October, 2005 (valid for an initial term of 3 years from application date ie. 23rd October, 2002, and for a maximum period of 10 years)
Hairdryer with a twistable handle (HD-517)#	Invention Patent	U.K.	GB2381748	8th October, 2003	4th September, 2006 (valid for an initial term of 4 years from application date ie. 5th September, 2002, and for a maximum period of 20 years)
吹風機 Hairdryer (HD-517)#	Design	Hong Kong	0211594.3	9th October, 2002	8th October, 2007 (valid for an initial term of 5 years from registration date, and for a maximum period of 25 years)
榨汁機 (EJ-533)#	Design	PRC	ZL 02368304X	21st April, 2004	21st October, 2012 (valid for 10 years from application date ie. 22nd October, 2002)

Title of invention	Type of patent/design	Place of registration	Registration number	Registration date	End date of validity period/ Renewal due date
榨汁機 Juicer (EJ-533)#	Design	Hong Kong	0211743.0	28th October, 2002	27th October, 2007 (valid for an initial term of 5 years from registration date and for a maximum period of 25 years)
理髮器 (Hair Straightener)# (HS-543)#	Design	PRC	ZL 200330102169.0	7th July, 2004	13th November, 2013 (valid for 10 years from application date ie. 14th November, 2003)
Hair dressing device (HS-543)#	Design	U.K.	3015191	14th November, 2003	13th November, 2008 (valid for an initial term of 5 years from application date ie. 14th November, 2003, and for a maximum period of 25 years)
理髮器 (Hair dressing device)# (RT-554)#	Design	PRC	ZL 200330102172.2	7th July, 2004	13th November, 2013 (valid for 10 years from application date ie. 14th November, 2003)
Hair dressing device (RT-554)#	Design	U.K.	3015137	12th November, 2003	11th November, 2008 (valid for an initial term of 5 years from application date ie. 12th November, 2003, and for a maximum period of 25 years)
吹髮器 (Hair dryer)# (HD-562)#	Design	PRC	ZL 200330102393.X	28th July, 2004	10th November, 2013 (valid for 10 years from application date ie. 11th November, 2003)
Hair dryer (HD-562)#	Design	U.K.	3015114	11th November, 2003	10th November, 2008 (valid for an initial term of 5 years from application date ie. 11th November, 2003, and for a maximum period of 25 years)

For reference only

As at the Latest Practicable Date, the Group has applied for registration of the following patents, the registration of which has not yet been granted:

Title of invention	Applicant	Place of application	Application number	Application date
髮刷裝置 (Hair Brushing Appliance)# (RD-547)#	Kenford	PRC	200310124100.7	8th December, 2003
Hair Brushing Appliance (RD-547)#	Kenford	U.K.	0328259.7	8th December, 2003
帶有熱容元件的管嘴 (Nozzle having Thermal-capacitance Element)# (HD-531)#	Kenford	PRC	200410043030.7	14th April, 2004
Nozzle having Thermal-capacitance element (HD-531)#	Kenford	U.S.	10/824,250	14th April, 2004
吹風器擴散器 (Hairdryer diffuser)# (HD-531)#	Kenford	PRC	200410047748.3	21st May, 2004
吹風機 (HD505) (Hairdryer (HD505))#	Kenford	PRC	02329760.3	16th May, 2002
Nozzle having Thermal-capacitance element (HD-531)#	Kenford	U.K.	0408278.0	14th April, 2004
Hair brushing appliance (RD-547)#	Kenford	U.S.	10/730,394	8th December, 2003
Hairdryer Diffuser (HD-531)#	Kenford	U.K.	0411309.8	21st May, 2004
Hairdryer Diffuser (HD-531)#	Kenford	U.S.	10/851,940	21st May, 2004

\# *For reference only*

3. Further information about the Enlarged Group's PRC establishment

As at the Latest Practicable Date, the Enlarged Group had interests in the registered capital of one wholly foreign-owned enterprise established in the PRC. A summary of the corporate information of the above PRC enterprise is set out as follows:

Name of PRC enterprise	:	DG KARIO
Date of incorporation	:	21st March, 2002
Place of incorporation	:	PRC
Nature	:	Wholly foreign-owned enterprise
Registered office	:	Xiakeng Village, Changping Town, Dongguan, Guangdong Province, the PRC
Registered Capital	:	US$513,000
Total investment amount	:	US$513,000
Equity holder	:	KARIO (100%)
Attributable interest of the Group	:	100%
Term	:	20 years
Principal activities	:	the design, manufacture and sale of electrical hair care products and other electrical appliances

F. FURTHER INFORMATION ABOUT THE DIRECTORS, MANAGEMENT, STAFF, AND SUBSTANTIAL SHAREHOLDERS

1. Disclosure of interests

(a) *Interests and short positions of Directors and chief executive of the Company discloseable under Divisions 7 and 8 of Part XV of the SFO*

Immediately following completion of the Share Offer and the Capitalisation Issue and taking no account of any Shares which may be taken up under the Share Offer or any Shares to be allotted and issued pursuant to the exercise of options that have been granted under the Pre-IPO Share Option Scheme or may be granted under the Share Option Scheme or the subscription rights attaching to the Warrants, the interests or short positions of the Directors and chief executive of the Company in the shares or underlying shares and debentures of the Company and 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) or which will be required, pursuant to section 352 of the SFO, to be entered into the register referred to therein, or which will be required, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers contained in the Listing Rules to be notified to the Company and the Stock Exchange, will be as follows:

Long position in the Shares and the Warrants

Name of Director	Name of Corporation	Nature of interest	Total number of shares in the Company	Approximate percentage of interest in the Company
Mr. Lam WM	the Company	corporate interest	275,400,000 *(Note 1)*	68.85%
Mr. Tam	the Company	corporate interest	275,400,000 *(Note 2)*	68.85%
Mr. Chan	the Company	corporate interest	16,200,000 *(Note 3)*	4.05%

Notes:

(1) Mr. Lam WM is taken to be interested in an aggregate of 275,400,000 Shares as follows:

(i) Mr. Lam WM is taken to be interested in an aggregate of 244,800,000 Shares held by Achieve Best and Beaute respectively as to:

(a) 40,800,000 Shares are held by Achieve Best which is wholly-owned by Mr. Lam WM and Mr. Lam WM is the sole director of Achieve Best. Mr. Lam WM is therefore taken to be interested in 40,800,000 Shares that Achieve Best is interested;

(b) 204,000,000 Shares are held by Beaute which is owned as to 50% by Apex Prima and 50% by Potentasia. Apex Prima is wholly-owned by Mr. Lam WM and Potentasia is wholly-owned by Mr. Tam. Mr. Lam WM is also a director of Beaute and the sole director of Apex Prima. Mr. Lam WM is therefore taken to be interested in 204,000,000 Shares that Beaute is interested; and

(ii) Mr. Lam WM is taken to be interested in an aggregate of 30,600,000 Shares upon the exercise of the subscription rights attached to the 61,200,000 Warrants held by Achieve Best and Beaute respectively.

(2) Mr. Tam is taken to be interested in an aggregate of 275,400,000 Shares as follows:

(i) Mr. Tam is taken to be interested in an aggregate of 244,800,000 Shares held by Realchamp and Beaute respectively as to:

(a) 40,800,000 Shares are held by Realchamp which is wholly-owned by Mr. Tam and Mr. Tam is the sole director of Realchamp. Mr. Tam is therefore taken to be interested in 40,800,000 Shares that Realchamp is interested; and

(b) 204,000,000 Shares are held by Beaute which is owned as to 50% by Apex Prima and 50% by Potentasia. Apex Prima is wholly-owned by Mr. Lam WM and Potentasia is wholly-owned by Mr. Tam. Mr. Tam is also a director of Beaute and the sole director of Potentasia. Mr. Tam is therefore taken to be interested in 204,000,000 Shares that Beaute is interested; and

(ii) Mr. Tam is taken to be interested in an aggregate of 30,600,000 Shares upon the exercise of the subscription rights attached to the 61,200,000 Warrants held by Realchamp and Beaute respectively.

(3) Mr. Chan is taken to be interested in an aggregate of 16,200,000 Shares as follows:

(i) Mr. Chan is taken to be interested in an aggregate of 14,400,000 Shares held by Champion Sight. Champion Sight is wholly-owned by Mr. Chan and Mr. Chan is the sole director of Champion Sight; and

(ii) Mr. Chan is taken to be interested in an aggregate of 1,800,000 Shares upon the exercise of the subscription rights attached to the 3,600,000 Warrants held by Champion Sight.

Long position in associated corporation

Name of Director	Name of associated corporation	Class of shares	Nature of interest	Number of shares	Approximate percentage of interests
Mr. Lam WM	Beaute	ordinary shares	corporate interest	2 *(Note)*	100%
Mr. Tam	Beaute	ordinary shares	corporate interest	2 *(Note)*	100%

Note: Beaute is owned as to 50% by Apex Prima and 50% by Potentasia. Apex Prima is wholly-owned by Mr. Lam WM and Potentasia is wholly-owned by Mr. Tam. Both Mr. Lam WM and Mr. Tam are the directors of Beaute. Mr. Lam WM and Mr. Tam are therefore taken to be interested in the shares in Beaute through their respective interests in Apex Prima and Potentasia.

(b) Substantial shareholders and persons who have an interest or short position discloseable under Divisions 2 and 3 of Part XV of the SFO

Immediately following completion of the Share Offer and the Capitalisation Issue, so far as the Directors are aware and taking no account of the Shares which may be taken up under the Share Offer and Shares which may fall to be issued upon the exercise of options that have been granted under the Pre-IPO Share Option Scheme or may be granted under the Share Option Scheme or the subscription rights attaching to the Warrants, information on the persons, not being Directors or the chief executive of the Company who had an interest or short position 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 be directly or indirectly 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 is set out in the paragraph headed "Substantial Shareholders" in the section headed "Controlling Shareholders and Substantial Shareholders" of this prospectus.

2. Particulars of Directors' service contracts

(a) Each of the executive Directors has entered into a service agreement with the Company for a term of three years commencing on the Listing Date and may be terminated by not less than three months' prior notice in writing served by either party on the other.

The annual basic salaries payable to each of the executive Directors are as follows:

Executive Directors	*HK$*
Mr. Lam WM	2,340,000
Mr. Tam	2,340,000
Mr. Chan	1,250,000

The basic annual salary of each of the executive Directors may be revised subject to the review of the Board at its sole discretion on 1st January of each calendar year.

Under their respective service agreements, each of the executive Directors is entitled to a discretionary performance bonus of an amount to be determined by the Board. The executive Director shall abstain from voting and not be counted in the quorum in respect of any resolution of the Board regarding any (i) increase in the basic annual salary or (ii) payment of the discretionary performance bonus payable to him.

Each of the executive Directors will also be entitled to reimbursement of (i) all travelling, hotel, entertainment and other out-of-pocket expenses reasonably incurred and (ii) all taxation (including salary tax payable in Hong Kong and the PRC) paid by the executive Director in connection with the employment and the performance of his duties under the employment.

Furthermore, each of the executive Directors will be provided with a company car to be used by such executive Director in Hong Kong and the PRC for the discharge of his duties under the employment where Mr. Lam WM and Mr. Tam will, in addition, be provided with a private driver. Each of Mr. Lam WM and Mr. Tam will also be provided with a domestic helper for use by such executive Director and his family members at his residence. The executive Directors will also be entitled to the medical benefits provided by the Company under its employee benefit program and the benefits of the directors and officers liability insurance and personal accident insurance provided by the Company. In addition, the executive Directors shall be entitled to participate in the mandatory provident fund scheme of the Company and may, at the discretion of the Board, be eligible to participate in any share option scheme from time to time adopted by the Company in accordance with the terms and conditions of such share option scheme.

The Company estimates that the amount payable to the executive Directors for the year ending 31st March, 2006 for reimbursement of (i) salary tax to be paid by the executive Directors in connection with their employment and the performance of their duties under the employment will be approximately HK$1,175,500; (ii) the private drivers to be provided to Mr. Lam WM and Mr. Tam will be approximately HK$200,000 and (iii) the domestic helpers to be provided to Mr. Lam WM and Mr. Tam will be approximately HK$74,000.

(b) Each of the independent non-executive Directors has entered into a letter of appointment with the Company commencing on the Listing Date for a term of one year and shall continue until terminated by not less than one month's prior notice in writing served by either party on the other.

The annual fees payable to each of the independent non-executive Directors are estimated as follows:

Independent non-executive Directors	*HK$*
Chiu Fan Wa	96,000
Li Chi Chung	96,000
Li Tat Wah	96,000

Save as disclosed in this prospectus, 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)).

3. Directors' remuneration

(a) For the year ended 31st March, 2004 and the nine months ended 31st December 2004, remuneration paid to (i) the directors of the Group were approximately HK$3,490,000 and HK$2,877,000 respectively; and (ii) the directors of the KARIO Group was nil and nil respectively.

(b) Under the arrangements currently in force, (i) the aggregate remuneration payable by the Company to the Directors for the financial year ended 31st March, 2005 is estimated to be approximately HK$3,900,000 (excluding discretionary performance bonus (if any)); and (ii) the aggregate remuneration payable by the Company to the Directors for the financial year ending 31st March, 2006 is estimated to be approximately HK$5,750,000 (excluding taxation payable by the executive Directors, costs and expenses of the private drivers and domestic helpers to be reimbursed by the Company, and discretionary performance bonus (if any)).

(c) No discretionary or performance bonus was paid to the Directors for the three years ended 31st March, 2004 and the nine months ended 31st December, 2004.

(d) None of the Directors or any past directors of any member of the Enlarged Group has been paid any sum of money for each of the three years ended 31st March, 2004 and the nine months ended 31st December, 2004 (i) as an inducement to join or upon joining the Company or (ii) for loss of office as a director of any member of the Enlarged Group or of any other office in connection with the management of the affairs of any member of the Enlarged Group.

(e) There has been no arrangement under which a Director has waived or agreed to waive any emoluments for each of the three years ended 31st March, 2004 and the nine months ended 31st December, 2004.

4. Personal guarantees

Mr. Lam WM and Mr. Tam have jointly and severally provided certain personal guarantees in favour of certain banks for liabilities due by the Enlarged Group.

The Enlarged Group had obtained written consents, in principle, from its banks to the effect that, upon the listing of the Shares and the Warrants on the Stock Exchange, all the personal guarantees executed jointly and severally by Mr. Lam WM and Mr. Tam will be replaced by corporate guarantees to be provided by the Company.

5. Agency fees or commissions received

Save as disclosed in this prospectus, 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 within the two years ended on the date of this prospectus.

6. Related party transactions

During the two years immediately preceding the date of this prospectus, the Group was engaged in the related party transactions as described in note 30 in the section headed "Notes to the financial information'' in the accountants' report set out in Appendix I to this prospectus.

7. Disclaimers

Save as disclosed herein:

(a) taking no account of the Shares which may be taken up under the Share Offer and Shares which may fall to be issued upon the exercise of options that have been granted under the Pre-IPO Share Option Scheme or may be granted under the Share Option Scheme, none of the Directors and chief executive of the Company is aware of any other Directors or chief executives who, as at the Latest Practicable Date, has any interests or short position in any Shares in, underlying shares and debentures of, the Company or any associated corporation (within the meaning of the SFO) which will be required 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 taken under such provisions of the SFO), or which will be required, pursuant to section 352 of the SFO, to be entered in the register referred to in that section, or will be required pursuant to the Model Code for Securities Transactions by Directors of Listed Companies to be notified to the Company and the Stock Exchange once the Shares are listed;

(b) none of the Directors or experts referred to in the paragraph headed "Consents of experts'' in this Appendix has any direct or indirect interest in the promotion of the Company, or in any assets which have been, within the two years immediately preceding the date of this prospectus, acquired or disposed of by or leased to any member of the Enlarged Group, or are proposed to be acquired or disposed of by or leased to any member of the Enlarged Group;

(c) none of the Directors nor any of the experts whose names are listed in the paragraph headed "Consents of expert" in 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 Enlarged Group taken as a whole;

(d) save as disclosed in the paragraph headed "Particulars of the Directors' service contracts" above, there are no existing or proposed service contracts (excluding contracts expiring or terminable by the employer within one year without payment of compensation (other than statutory compensation)) between the Company or any of its subsidiaries and any of the Directors.

G. SHARE OPTION SCHEME

Summary of terms

The following is a summary of the principal terms of the Share Option Scheme:

(a) Purpose

The purpose of the Share Option Scheme is to enable the Group and its Invested Entities to recruit and retain high calibre Eligible Persons and attract human resources that are valuable to the Enlarged Group or Invested Entities, to recognise the significant contributions of the Eligible Persons to the growth of the Enlarged Group or Invested Entities by rewarding them with opportunities to obtain ownership interest in the Company and to further motivate and give incentives to these Eligible Persons to continue to contribute to the long term success and prosperity of the Enlarged Group or Invested Entities.

(b) Who may join

The Board may invite any Eligible Person as the Board may in its absolute discretion select, having regard to each person's qualifications, skills, background, experience, service records and/or contribution or potential value to the relevant member(s) of the Enlarged Group or Invested Entity, to take up Options to subscribe for Shares at a price calculated in accordance with paragraph (c) below.

(c) Subscription price and acceptance period

The subscription price for the Shares under the Share Option Scheme shall be a price determined by the Board at its absolute discretion and notified to an Eligible Person but shall not be less than the highest of:

(i) the closing price of the Shares as stated in the Stock Exchange's daily quotations sheet on the Offer Date;

(ii) the average closing price of the Shares as stated in the Stock Exchange's daily quotations sheets for the five (5) business days immediately preceding the Offer Date; and

(iii) the nominal value of a Share.

Provided that where the Board proposes to grant Options under paragraphs (e)(ii) or (f)(ii) below, the date of the meeting of the Board proposing the relevant grant shall be deemed to be the Offer Date for the purpose of calculating the subscription price.

The Eligible Person must accept any such Offer notified to him or her within fourteen (14) days from the Offer Date, failing which it shall be deemed to have been rejected. Upon acceptance of the Offer, the Grantee shall pay HK$1.00 to the Company as consideration for the grant.

(d) Maximum number of Shares subject to the Share Option Scheme

(i) Subject to the provisions of paragraph (d)(ii) below,

(1) the total number of Shares which may be issued upon exercise of all options to be granted under the Share Option Scheme and any other share option scheme(s) of the Company must not in aggregate exceed ten (10)% (the "Scheme Mandate Limit") of the nominal amount of all issued Shares as at the Listing Date (such ten (10)% shall represent 40,000,000 Shares) unless the Company obtains a fresh approval from its Shareholders pursuant to paragraphs (d)(i)(2) and/or (3) below;

(2) the Company may seek approval of the Shareholders in general meeting to refresh the Scheme Mandate Limit from time to time such that the total number of Shares which may be issued upon exercise of all options to be granted under the Share Option Scheme and any other share option scheme(s) of the Company shall not exceed ten (10)% of the Shares in issue as at the date of such Shareholders' approval. The Company must send a circular containing the information required under Rule 17.02(2)(d) and the disclaimer required under Rule 17.02(4) of the Listing Rules to the Shareholders; and

(3) the Company may seek separate Shareholders' approval in general meeting to grant Options over and above the Scheme Mandate Limit provided that the Options in excess of the Scheme Mandate Limit are granted only to the Eligible Persons specified by the Company before such approval is sought and for whom specific approval is then obtained. The Company must issue a circular containing the information required under Note 1 to Rule 17.03(3) of the Listing Rules to the Shareholders.

(ii) The maximum number of Shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the Share Option Scheme and any other share option scheme(s) of the Company shall not in aggregate exceed thirty (30)% of the Shares in issue from time to time required under Note 2 of Rule 17.03(3) of the Listing Rules. Further, no option may be granted under the Share Option Scheme and any other option scheme(s) of the Company if such limit is exceeded.

(e) Maximum entitlement of each Grantee

(i) Unless the approval of Shareholders contemplated under paragraph (e)(ii) below is obtained, the total number of Shares issued and to be issued upon exercise of the options granted to each Eligible Person under the Share Option Scheme and any other share option scheme(s) of the Company (including exercised, cancelled and outstanding options) in any 12-month period must not exceed one (1)% of the Shares in issue.

(ii) Where the Board proposes to grant an option to an Eligible Person under the Share Option Scheme and/or any other share option scheme(s) of the Company and such further grant would result in such Eligible Person becoming entitled to subscribe for such number of Shares, when aggregated with the total number of Shares (a) already issued under all the options previously granted to him or her which have been exercised; (b) issuable under all the options previously granted to him or her which are for the time being subsisting and unexercised; and (c) which were subject to options previously granted to him or her but for the time being having been cancelled in the past 12-month period up to and including the date of such further grant, exceeding one (1)% of the Shares in issue for the time being, such further grant shall be separately approved by the Shareholders in general meeting (with such Eligible Person and his or her associates abstaining from voting). The relevant requirements under the Note to Rule 17.03(4) of the Listing Rules must be complied with.

(f) Maximum entitlement of each Grantee who is a connected person

In addition to the Shareholders' approval as set out in paragraphs (d)(i) and (e)(ii) above,

(i) each grant of Option to an Eligible Person who is a director, chief executive or substantial shareholder of the Company, or any of their respective associates, under the Share Option Scheme must be approved by the independent non-executive Director(s) (excluding the independent non-executive Director who is the Grantee of the Option); and

(ii) where the Board proposes to grant any Option to an Eligible Person who is a substantial shareholder or an independent non-executive Director, or any of their respective associates, and such Option, if exercised in full, would result in the total number of Shares issued and to be issued upon exercise of all Options already granted and to be granted to such Eligible Person (including exercised, cancelled and outstanding Options) in the past 12-month period up to and including the date of grant:

(1) representing in aggregate more than 0.1% of the total number of Shares in issue; and

(2) having an aggregate value (on the assumption that all such Options had been exercised and all Shares allotted), based on the closing price of the Shares as stated in the Stock Exchange's daily quotations sheet on the date of each grant or, if that date is not a business day, the business day immediately before, in excess of HK$5,000,000.00,

such further grant of Options must be approved by the Shareholders. The Company must send a circular to the Shareholders containing the information required under Rule 17.04 of the Listing Rules. All connected persons of the Company must abstain from voting at such general meeting, except that any connected person may vote against the relevant resolution at the general meeting provided that his or her intention to do so has been stated in the circular to be sent to the Shareholders. Any vote taken at the meeting to approve the grant of such Options must be taken on a poll.

(g) Exercise period and performance target

Subject to paragraphs (i), (j), (k) and (l) below and unless otherwise determined by the Board and notified to the Grantee on or before the Offer Date, an Option may be exercised in accordance with the terms of the Share Option Scheme at any time during the Option Period, subject to any restrictions or conditions on the exercise of the Options as the Board may determine.

The Option Period shall be notified by the Board to each Grantee upon grant of each Option, provided that it shall commence on a date not earlier than the date of the grant of an Option and not be more than ten (10) years from the date of the grant of an Option.

There is no provision in the Share Option Scheme to require a Grantee to fulfill any performance target or to hold the Option for a certain period before exercising the Option, but the Board may at its absolute discretion and from time to time provide such requirements in the offer of grant of Options.

(h) Non-transferability

An Option shall be personal to the Grantee and shall not be assignable, and no Grantee shall in any way sell, transfer, charge, mortgage, encumber or create any interest in favour of any third party over or in relation to any Option (save that the Grantee may nominate a nominee in whose name the Shares issued pursuant to the

Share Option Scheme may be registered). Any breach of the foregoing shall entitle the Company to determine any outstanding Option or part thereof granted to such Grantee, whereupon the Option outstanding or part thereof shall be deemed to have lapsed.

(i) Rights on ceasing to be an Eligible Person

(i) Where the Grantee of an Option ceases to be an Eligible Person for any reason other than his or her death or termination of his or her employment or engagement or cessation of his or her directorship on one or more of the grounds set out in paragraph (p)(iv) below, the Grantee may exercise the Option at any time on or before the date which is three (3) months after the date of cessation, to the extent exercisable as at the date of cessation but not so exercised, which date of cessation shall be the last actual working day with or for the Group or the relevant Invested Entity whether salary or compensation is paid in lieu or not, and the Board's decision in that regard shall be conclusive.

(ii) Where the Grantee dies before exercising the Option in full and none of the events which would be a ground for termination of his or her employment or engagement or cessation of his or her directorship set out in paragraph (p)(iv) below arise, the legal personal representative(s) of the Grantee shall be entitled to exercise the Option up to the entitlement of such Grantee as at the date of death (to the extent not already exercised) within a period of twelve (12) months from the date of death.

(j) 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 representative(s)) may by notice in writing to the Company accompanied by a remittance for the full amount of the aggregate subscription price for the Shares in respect of which the notice is given (such notice to be received by the Company not later than two (2) 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 business 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.

(k) General offer

(i) If a general offer (whether by way of takeover offer, share repurchase offer or otherwise in a like manner) is made to all the Shareholders (or all Shareholders other than the offeror and/or any person controlled by the offeror and/or any person acting in association or concert with the offeror), the Company shall use its reasonable efforts to procure that such offer is extended to all Grantees (on the same terms, mutatis mutandis, and assuming that such Grantee will become, by exercise of the Options granted to them (to the extent not already exercised), Shareholders). If the general offer becomes or is declared unconditional prior to the expiry date of the relevant Option, the Grantee shall be entitled to exercise the Option in full or in part (to the extent not already exercised) at any time within such period as shall be notified by the Company, provided that if, during such period, such person becomes entitled to exercise rights of compulsory acquisition of Shares pursuant to the Companies Law and gives notices in writing to any holders of Shares that he intends to exercise such rights, Options (to the extent not already exercised) shall be and remain exercisable until one (1) month from the date of such notice.

(ii) If a general offer by way of scheme of arrangement is made to all the Shareholders with the scheme having been approved by the necessary number of Shareholders at the requisite meetings, the Grantee (or his or her legal personal representative(s)) may thereafter (but before such time as may be specified by the Company) exercise the Option to its full extent or to the extent specified in his or her notice to the Company.

(l) Compromise or arrangement with members or creditors

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 under the Companies Law, the Company shall give notice thereof to all Grantees on the same day as it gives notice of the meeting to its members or creditors to consider such a compromise or arrangement and the Grantee may by notice in writing to the Company accompanied by the remittance for the full amount of the aggregate subscription price for the Shares in respect of which the notice is given (such notice to be received by the Company not later than two (2) 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 not later than the business day 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. With effect from the date of such meeting, the rights of all Grantees to exercise their respective Options shall forthwith be suspended. Upon such compromise or arrangement becoming effective, all Options shall, to the extent that they have not been exercised, lapse and determine. The Board shall endeavour to procure that the Shares issued as a result of the exercise of Options under this paragraph shall for the purposes of such compromise or arrangement form part of the issued share capital of the Company on the effective date thereof and that such Shares shall in all respects be subject to such compromise or arrangement. If for any reason such compromise or arrangement is not approved by the court (whether upon the terms presented to the court or upon any other terms as may be approved by such court), the rights of the Grantees to exercise their respective Options shall with effect from the date of the making of the order by the court be restored in full but only to the extent not already exercised and shall thereupon become exercisable (but subject to the other terms of the Share Option Scheme) (provided that the Option Period shall accordingly be extended by the length of the period of suspension) as if such compromise or arrangement had not been proposed by the Company and no claim shall lie against the Company or any of its officers for any loss or damage sustained by any Grantee as a result of the aforesaid suspension.

(m) Adjustment

(i) In the event of a capitalisation issue, rights issue, subdivision or consolidation of Shares or reduction of capital of the Company while any Option remains exercisable, such corresponding alterations (if any) shall be made to:

(1) the number of Shares subject to the Share Option Scheme; and/or

(2) the number of Shares subject to the Options already granted; and/or

(3) the subscription price,

provided that any such alteration shall be made on the basis that:

(1) the aggregate subscription price payable by a Grantee on the full exercise of any Option shall remain as nearly as possible the same (but shall not be greater than) as it was before such event; and

(2) the proportion of the issued share capital of the Company to which a Grantee is entitled after such alteration shall remain the same as that to which he or she was entitled before such alteration,

and provided further that no such alteration shall be made the effect of which would be to enable a Share to be issued at less than its nominal value. In respect of any such alterations (save those made on a capitalisation issue), an approved independent financial adviser or the auditors of the Company must confirm to the Directors in writing that such alterations satisfy the requirements set out in the Note to Rule 17.03(13) of the Listing Rules.

(ii) For the avoidance of doubt, the issue by the Company of securities as consideration for or in connection with a transaction will not be regarded as a circumstance requiring adjustment.

(iii) The capacity of the approved independent financial adviser or the auditors of the Company in paragraph (m)(i) above is that of expert and not of arbitrator and its certification shall, in the absence of manifest error, be final and binding on the Company and the Grantees.

(n) Alteration of rules

(i) The rules of the Share Option Scheme relating to definitions, other than "Eligible Person", "Grantee" and "Option Period", and the provisions of Clauses 1.2, 12, 13 and 16 of the Share Option Scheme may be altered from time to time in any respect by resolution of the Board. Certain specified provisions of the Share Option Scheme relating to, among other things, the matters set out in Rule 17.03 of the Listing Rules, the definitions of "Eligible Person", "Grantee" and "Option Period" and the provisions of Clauses 2, 3, 4, 5, 6, 7, 8, 9, 10, 11, 14 and 15 of the Share Option Scheme cannot be altered to the advantage of the Grantees or prospective Grantees save with the prior approval of the Shareholders in general meeting.

(ii) No alteration of the Share Option Scheme shall operate to affect adversely the terms of issue of any Option granted or agreed to be granted prior to such alteration except with the consent or sanction of such majority of the Grantees as would be required of the Shareholders under the Articles for the time being for a variation of the rights attached to the Shares.

(iii) Any alteration to the terms and conditions of the Share Option Scheme which is of a material nature or any change to the terms of Options granted shall be approved by the Shareholders, save where such alteration takes effect automatically under the existing terms of the Share Option Scheme.

(iv) Any change to the authority of the Board in relation to any alteration to the terms of the Share Option Scheme must be approved by the Shareholders in general meeting.

(v) The amended terms of the Share Option Scheme or the Options must still comply with the relevant requirements of Chapter 17 of the Listing Rules.

(o) Ranking of the Shares

The Shares to be allotted upon exercise of an Option will be subject to all the provisions of the Articles for the time being in force and will rank pari passu with the fully paid Shares in issue on the date of allotment of the Shares upon exercise of the Option or, if that date falls on a day when the register of members of the Company is closed, the first day of the re-opening of the register of members, and accordingly will entitle the holders to participate in all dividends or other distributions paid or made on or after the date of allotment of the Shares upon exercise of the Option or, if that date falls on a day when the register of members of the Company is closed, the first day of the re-opening of the register of members, other than any dividend or other distributions previously declared or recommended or resolved to be paid or made if the record date therefor shall be before the date of allotment of the Shares upon exercise of the Option.

(p) Lapse of Option

An Option shall lapse automatically (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 paragraphs (i), (k)(i) or (l) above;

(iii) subject to the scheme of arrangement becoming effective, the expiry of the period referred to in paragraph (k)(ii) above;

(iv) the date on which the Grantee ceases to be an Eligible Person by reason of the termination of his or her employment or engagement or cessation of his or her directorship on the grounds that he or she has been guilty of misconduct, or appears either to be unable to pay or to have no reasonable prospect of being able to pay debts or has become insolvent or has committed an act of bankruptcy or has made any arrangement or composition with his or her creditors generally, or has been convicted of any criminal offence involving his or her integrity or honesty or on any other ground on which an employer would be entitled to terminate his or her employment or engagement at common law or pursuant to any applicable laws or under the Grantee's service or engagement contract with the relevant member of the Enlarged Group or Invested Entity (as the case may be). A resolution of the Board to the effect that the employment or engagement of a Grantee has or has not been terminated on one or more of the grounds specified in this paragraph shall be conclusive;

(v) the date of occurrence of any event(s), if any, whereby the relevant Option will lapse as prescribed under the Offer;

(vi) subject to paragraph (j) above, the date of commencement of the winding-up of the Company; or

(vii) where the Grantee commits a breach of paragraph (h) above, the date which the Board shall designate in the exercise of the Company's right to determine the Option thereunder.

(q) Conditions

The Share Option Scheme is conditional upon, amongst others, the Listing Committee of the Stock Exchange granting approval of the listing of, and permission to deal in, any Shares falling to be issued pursuant to the exercise of the Options granted under the Share Option Scheme, and the commencement of dealings in the Shares on the Stock Exchange.

(r) Term of the Share Option Scheme

The Share Option Scheme will remain in force for a period of ten (10) years commencing from 27th May, 2005 (being the date of approval of the Share Option Scheme by the Shareholders), after which no further Options shall be granted but the Options which are granted during the life of the Share Option Scheme may continue to be exercisable in accordance with their terms of issue and the provisions of the Share Option Scheme shall in all other respects remain in full force and effect in respect thereof.

(s) Cancellation of Options

Any cancellation of Options granted but not exercised shall require approval of the Board. Where the Board cancels Options and issues new ones to the same Eligible Person, the issue of such new Options may only be made under the Share Option Scheme with available unissued Options (excluding the cancelled Options) within the limit approved by the Shareholders as mentioned in paragraph (d).

(t) Early termination

The Company may by ordinary resolution in general meeting or the Board may at any time terminate the operation of the Share Option Scheme and in such event no further Options will be offered but the Options which are granted during the life of the Share Option Scheme may continue to be exercisable in accordance with their terms of issue and in all other respects, the provisions of the Share Option Scheme will remain in full force and effect.

H. PRE-IPO SHARE OPTION SCHEME

1. Summary of terms

The Company has adopted the Pre-IPO Share Option Scheme. The purpose of the Pre-IPO Share Option Scheme is to, amongst others, give the participants an opportunity to obtain ownership interest in the Company and recognise the significant contribution of, and further motivate and to give incentives to, the key executives, senior management and full-time employees of the Enlarged Group (including executive Directors) who, in the sole discretion of the Board, has contributed or will contribute to the Enlarged Group. The principal terms of the Pre-IPO Share Option Scheme, approved and adopted by a written resolution of all the Shareholders dated 27th May, 2005 (which is still subject to certain conditions similar to those referred to under the Share Option Scheme), are basically the same as the terms of the Share Option Scheme, except that:

(a) the exercise price for each Share is one third of the Offer Price;

(b) the option period ("Option Period") of all options granted does not exceed 3 years from the Listing Date;

(c) the options cannot be exercised within six months from the date on which the Shares and Warrants first commence trading;

(d) Subject to paragraph (c) above and the requirements under the Listing Rules, the option may be exercised at any time during the Option Period provided that the closing price of the Shares as stated in the Stock Exchange's daily quotations sheet on that date shall not be less than 1.25 times of the Offer Price;

(e) the definition of the "Eligible Persons" means key executives, senior management and full-time employees of the Enlarged Group (including executive directors of the Enlarged Group);

(f) the total number of Shares subject to the Pre-IPO Share Option Scheme is 4,000,000 Shares and there are no similar requirements to be complied with on granting of options to connected persons as summarised in paragraph (f) of the paragraph headed "Summary of the terms of the Share Option Scheme" above; and

(g) save for the options which have been conditionally granted under the Pre-IPO Share Option Scheme in respect of 4,000,000 Shares, no further options will be offered or granted pursuant to the Pre-IPO Share Option Scheme, as the right to do so has been terminated on the day on which the bulk print of this prospectus had taken place.

All options were conditionally granted to the grantees on 28th May, 2005.

An application has been made to the Listing Committee of the Stock Exchange for the listing of and permission to deal in the Shares which may be issued pursuant to the exercise of the options granted under the Pre-IPO Share Option Scheme.

2. Outstanding options granted

As at the date of this prospectus, options to subscribe for 4,000,000 Shares in aggregate (representing 1% of the enlarged issued share capital of the Company immediately after completion of the Share Offer and the Capitalisation Issue at an exercise price equivalent to one third of the Offer Price, have been conditionally granted by the Company under the Pre-IPO Share Option Scheme. The Directors consider that the discount to the Offer Price is necessary in order to give the intended incentives for future service and rewards for past contribution to the grantees, who are key senior management staff of the Enlarged Group with not less than five years of service. The relevant grantee may exercise options at any time during the Option Period provided that the closing price of the Shares as stated in the Stock Exchange's daily quotations sheet on that date shall not be less than 1.25 times of the Offer Price.

The options have been conditionally granted based on the performance of the grantees who have made important contributions and are important to the long term growth and profitability of the Enlarged Group. A total of 4 employees including 4 senior management (set out in the section headed "Directors, Senior Management and Staff" of this prospectus) have been conditionally granted options under the Pre-IPO Share Option Scheme.

Particulars of the options that have been conditionally granted to the grantees who may acquire Shares under the Pre-IPO Share Option Scheme if the options are exercised in full, are set out below:

Name of grantee	Position held	Address	No. of Shares subject to options	Approximate percentage to Shares in issue after completion of Share Offer
Senior management				
Mr. Kwong Pak Chuen, Patrick	Senior engineering manager	17/F., Flat A1, Block A, Flora Garden, 50 Cloud View Road, North Point, Hong Kong	1,200,000	0.30%
Mr. Law Tak Wai	Operation manager	Room 901, Block 35, Heng Fa Chuen, Chai Wan, Hong Kong	1,200,000	0.30%
Mr. Wong Siu Man	Senior materials manager	Flat D, 12/F., Pak Hoi Mansion, Taikoo Shing, Hong Kong	600,000	0.15%
Mr. Lam WH	Administration manager	Flat M-1, Man Lok House, Tai Heng Sai East, Kowloon, Hong Kong	1,000,000	0.25%
			4,000,000	1%

Exercise of any options under the Pre-IPO Share Options will have a dilution effect on the shareholdings of the Shareholders at the time of such exercise as well as on the earnings per Share for the relevant financial year of the Group.

Assuming that all the outstanding options held by Mr. Lam WH, being a connected person of the Company, offered under the Pre-IPO Share Option Scheme were exercised in full on the Listing Date, the shareholding interest of the public would be reduced from 25% to approximately 24.94% of the issued share capital of the Company (taking into no account of any Shares which may be allotted and issued upon the exercise of any options which may be granted under the Share Option Scheme and the subscription rights under the Warrants). Assuming that the Company had been listed on the Main Board since 1st April, 2003, a total of 400,000,000 Shares had been in issue during the financial year and a total of 4,000,000 Shares had been in issue under the exercise of the options that have been granted under the Pre-IPO Share Option Scheme, but taking into no account of any Shares which may be allotted and issued upon the exercise of any options which may be granted under the Share Option Scheme and the subscription rights under the Warrants, the pro forma fully diluted earnings per Share would be diluted to approximately HK$0.077 and HK$0.141 for the financial year ended 31st March, 2004 and the nine months ended 31st December, 2004, respectively. Based on the profit estimate of the Group for the year ended 31st March, 2005 (as set out in Appendix III of this prospectus), the pro forma estimated earnings per Share for the year ended 31st March, 2005 would be diluted from approximately HK$0.143 to approximately HK$0.141.

The Controlling Shareholders have undertaken to the Company that in the event that the exercise of the options under the Pre-IPO Share Option Scheme would result in the minimum public float of the Shares on the Stock Exchange to fall below 25%, they will place out such number of Shares in order to comply with the public float requirement of the Listing Rules. In addition, each of the Controlling Shareholders has also undertaken to the Company not to exercise any of the Warrants owned by it/him if as a result of which the Company will not be able to comply with the public float requirement of the Listing Rules.

Save as disclosed above, no options have been granted or will be granted by the Company under the Pre-IPO Share Option Scheme prior to the Listing Date.

I. WAIVERS FROM STRICT COMPLIANCE WITH THE LISTING RULES AND EXEMPTION FROM INCLUSION OF CERTAIN INFORMATION UNDER THE COMPANIES ORDINANCE

The accountants' reports of the Group and the KARIO Group for each of the three years ended 31st March, 2004 and the nine months ended 31st December, 2003 and 2004 have been prepared and are set out in Appendix I and Appendix II respectively to this prospectus. However, as this prospectus has been issued within a short period of time after 31st March, 2005, the accountants' reports have not been prepared for the full year ended 31st March, 2005 as it would be unduly burdensome for the Company to do so and impossible for the audited results for the year ended 31st March, 2005 to be finalised in such a short period of time.

In these circumstances, an application was made to the SFC for a certificate of exemption from strict compliance with paragraphs 27 and 31 of the Third Schedule to the Companies Ordinance in relation to the inclusion of the accountants' report of the Group and the KARIO Group for the full year ended 31st March, 2005 in this prospectus on the ground that it would be unduly burdensome for the Company to do so and a certificate of exemption has been granted by the SFC under section 342A(1) of the Companies Ordinance.

An application has also been made to the Stock Exchange for a waiver from strict compliance with Rule 4.04(1) and Rule 4.04(2) of the Listing Rules, and such waiver has been granted by the Stock Exchange.

The Directors have confirmed that they have performed sufficient due diligence on the Group and the KARIO Group to ensure that, save as disclosed herein, up to the date of issue of this prospectus, there has been no material adverse change in the financial position of the Group and the KARIO Group since 31st December, 2004, and there is no event which would materially affect the information respectively shown in the "Accountants' report" as set out in Appendix I to this prospectus and "Additional financial information of KARIO" in Appendix II to this prospectus.

J. OTHER INFORMATION

1. Indemnities

By a deed of indemnity dated 28th May, 2005 (being material contract (n) referred to in the paragraph headed "Summary of material contracts'' in this Appendix) ("Deed of Indemnity"), each of the Controlling Shareholders has given joint and several indemnities in favour of the Company (for itself and as trustee of its subsidiaries) in respect of, among other things:

(a) any tax liabilities including, without limitation, estate duty which may be payable by any member of the Enlarged Group on or before the Listing Date;

except such indemnities do not cover certain circumstances including:

(i) to the extent that provision has been made for such taxation or claims in the combined audited accounts of the Company or the audited accounts of the relevant member of the Enlarged Group for the three years ended on 31st March, 2004 and the nine months ended on 31st December, 2004, and any previous audited accounts of any member of the Enlarged Group ("Accounts'');

(ii) to the extent that such taxation or liability would not have arisen but for any act or omission by any member of the Enlarged Group voluntarily effected after the Listing Date without the prior written consent or agreement of the Controlling Shareholders (such consent or agreement not to be unreasonably withheld or delayed), otherwise than in the ordinary course of business after the date of the Listing Date or carried out, made or entered into pursuant to a legally binding commitment created on or before the Listing Date;

(iii) to the extent that such liability for which any member of the Enlarged Group is primarily liable is as a result of transactions entered into on normal commercial terms, at arm's length basis and in the ordinary course of normal day-to-day operations of the Enlarged Group after 31st December, 2004;

(iv) to the extent that such taxation claim arises or is incurred as a consequence of any retrospective change in the law or the interpretation or practice thereof by the Inland Revenue Department of Hong Kong or tax authorities of the PRC or any other authority in any part of the world coming into force after the Listing Date or to the extent such taxation clam arises or is increased by an increase in rates of taxation after the Listing Date with retrospective effect;

(v) to the extent that such taxation or liability is discharged by another person and that no member of the Enlarged Group is required to reimburse such person in respect of the discharge of the taxation or liability; or

(vi) to the extent of any provision or reserve for taxation in the Accounts which is finally established to be an over-provision or an excessive reserve in which case the Controlling Shareholders' liability (if any) in respect of taxation shall be reduced by an amount not exceeding such over-provision or an excess reserve, provided that the amount of any such over-provision or excess reserve applied pursuant to this paragraph to reduce the Controlling Shareholders' liability in respect of taxation shall not be available in respect of any such liability arising thereafter; and

(b) any costs or expenses reasonably arising from relocation, and all operating and business losses which the relevant member of the Enlarged Group may suffer arising from the relocation of its business or assets from any property leased, rented, occupied or used by any member of the Enlarged Group as at the date of this prospectus; and all costs and expenses (including legal costs and expenses), losses, damages, liabilities incurred or suffered by the Company and/or the relevant member of the Enlarged Group in connection with any action taken by the owner, landlord or any relevant authority in relation to such property in the event that (i) the tenancy or right of occupation of any member of the Enlarged Group in respect of such property shall be terminated by the relevant owner, landlord or authority or cannot be renewed by the relevant member of the Enlarged Group upon its expiry or (ii) any member of the Enlarged Group is otherwise being evicted from or not being permitted to use or occupy any such property for whatever reason (whether in relation to any invalidity or unenforceability of the tenancy or right of occupation or otherwise); and

(c) all costs and expenses (including legal costs and expenses on a full indemnity basis), claims, losses, damages, liabilities incurred or suffered by any member of the Enlarged Group as a result of the Litigation and any other legal proceedings in relation to the subject matter of the Litigation initiated after the date of the Deed of Indemnity (collectively, the "Relevant Litigation") or in relation thereto, including without limitation:–

(i) any damages payable by any member of the Enlarged Group to any third party arising from the Relevant Litigation, and any profits for which any member of the Enlarged Group may account to any other person and any other party's legal costs which any member of the Enlarged Group may have to bear under or in connection with the Relevant Litigation; and

(ii) all costs and expenses (including any legal costs and expenses on a full indemnity basis) which any member of the Enlarged Group may incur in connection with the Relevant Litigation, including those for investigation, assessment, contesting or settlement of the Relevant Litigation or any claims in relation thereto; and

(d) any claims and liabilities which may be incurred or suffered by any member of the Enlarged Group arising from:

(i) any fines, penalties or such other sum which may be imposed or demanded by the PRC government or any competent authority against the relevant member of the Enlarged Group for breach or non-compliance on the part of the relevant member of the Enlarged Group of any applicable law or regulations of the PRC in connection with the leasing, sub-leasing, use or occupation of the Shenzhen Factory Premises; and

(ii) any claims for losses and damages suffered by the sub-lessee as a result of any legal deficiency of the right of the relevant member of the Enlarged Group to use, occupy or sub-let the Shenzhen Factory Premises or the breach by the relevant member of the Enlarged Group of its obligations under the agreement between the relevant member of the Group and the sub-lessee in respect of the sub-lease of the Shenzhen Factory Premises.

The Directors have been advised that no material liability for estate duty is likely to fall on the Company or any of its subsidiaries in the Cayman Islands, the BVI or the PRC, being jurisdictions in which one or more of the companies comprising the Enlarged Group are incorporated.

2. Litigation

As at the Latest Practicable Date, the Enlarged Group was involved in the Litigation as set out in details in the section headed "Litigation and contingent claims" under the section headed "Risk factors" on page 31 and the section headed "Contingent liabilities" under the section headed "Financial Information" on page 116 of this Prospectus.

Save as disclosed herein, no member of the Enlarged Group 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 by or against any member of the Enlarged Group.

The Controlling Shareholders have jointly and severally agreed and undertook to indemnify the Enlarged Group from and against any claims, losses, expenses (including legal costs) which may be incurred by the Enlarged Group in connection with the Litigation. Details of the deed of indemnity are set out in the section headed "Indemnities" in this Appendix.

3. Joint Sponsors and compliance adviser

Partners Capital and SinoPac have jointly made an application on behalf of the Company to the Listing Committee for a listing of, and permission to deal in, the Shares in issue and to be issued pursuant to the Share Offer and the Capitalisation Issue, the Warrants to be issued and the Shares to be issued pursuant to the exercise of the subscription rights under the Warrants as mentioned in this prospectus (including any Shares to be issued pursuant to the exercise of options that have been granted under the Pre-IPO Share Option Scheme or may be granted under the Share Option Scheme).

Partners Capital, being one of the sponsors of the Company, has been appointed as the compliance adviser of the Company pursuant to Rule 3A.19 of the Listing Rules and will receive normal professional fees in connection with the advisory services to be provided to the Company for a term commencing on the Listing Date and ending on the date on which the Company complies with Rule 13.46 in respect of its financial results for the financial year ending 31st March, 2007 pursuant to the agreement of compliance adviser dated 11th May, 2005 (as amended) entered into between the Company and Partners Capital.

Partners Capital, the Bookrunner and the other Underwriters will receive underwriting commission pursuant to the Underwriting Agreement.

4. Taxation of holders of Shares and Warrants

(a) Hong Kong

Dealings in Shares and Warrants registered on the Company's Hong Kong branch register of members and register of Warrants respectively will be subject to Hong Kong stamp duty. The duty is charged at the current rate of 0.2% of the consideration or, if higher, the fair value of the Shares or Warrants being sold or transferred (the buyer and seller each paying half of such stamp duty). In addition, a fixed duty of HK$5 is currently payable on any instrument of transfer of shares.

Profits from dealings in the Shares and/or Warrants arising in or derived from Hong Kong may also be subject to Hong Kong profits tax.

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

(b) Cayman Islands

Under present Cayman Islands law, transfers or other dispositions of Shares and Warrants outside the Cayman Islands are exempted from Cayman Islands stamp duty.

(c) Professional tax advice recommended

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

5. Preliminary expenses

The preliminary expenses incurred by the Company are estimated to be approximately HK$21 million and are payable by the Company.

6. Promoters

The promoters of the Company are Mr. Lam WM and Mr. Tam. Save as disclosed in this prospectus, no amount or benefit has been paid or given to or is intended to be paid or given to the promoters in connection with the Share Offer or the related transactions described in this prospectus within the two years immediately preceding the date of this prospectus.

7. Qualification of experts

The following are the qualifications of the experts who have given their opinion or advice which are contained in this prospectus:

Name	Qualification
Partners Capital	A licensed corporation for types 1 and 6 regulated activities under the SFO
SinoPac	A licensed corporation for types 1, 4, 6 and 9 regulated activities under the SFO
BDO McCabe Lo & Company	Certified public accountants
PCP CPA Limited	Certified public accountants
B.I. Appraisals Limited	Registered professional surveyor, valuers and property consultants
Conyers Dill & Pearman	Cayman Islands attorneys-at-law
King & Wood	Qualified PRC lawyers

8. Consents of experts

Each of Partners Capital, SinoPac, BDO McCabe Lo & Company, PCP CPA Limited, B.I. Appraisals Limited, Conyers Dill & Pearman and King & Wood has given and has not withdrawn its respective written consent to the issue of this prospectus with the inclusion of its report and/or letter and/or valuation certificate and/or opinion (as the case may be) and/or the references to its name included herein in the form and context in which it is respectively included.

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. Share register and Warrant register

Subject to the provisions of the Companies Law, the register of members of the Company will be maintained in the Cayman Islands by Butterfield Bank (Cayman) Limited and a branch register of members of the Company and the register of holders of Warrants will be maintained in Hong Kong by Computershare Hong Kong Investor Services Limited. Save where the Directors otherwise agree, all transfers and other documents of title to Shares and Warrants must be lodged for registration with, and registered by the Company's branch share registrar and warrant registrar in Hong Kong and may not be lodged in the Cayman Islands.

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 or agreed to be issued as 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;

(ii) no share, warrant 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;

(iii) there has been no material adverse change in the financial position or prospects of the Company in the last 12 months;

(iv) there has not been any interruption in the business of the Enlarged Group which may have or has had a significant effect on the financial position of the Enlarged Group in the 12 months preceding the date of this prospectus;

(v) no founder shares, management shares or deferred shares of the Company have been issued or agreed to be issued; and

(vi) within the two years preceding the date of this prospectus, no commissions, discounts, brokerages or other special terms have been granted in connection with the issue or sale of any capital of the Company or any of its subsidiaries.

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(b) All necessary arrangements have been made enabling the Shares and the Warrants to be admitted into 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 copies of the **WHITE** and **YELLOW** application forms, the written consents referred to in the paragraph headed "Consents of experts'' in Appendix VIII to this prospectus, copies of the material contracts referred to in the paragraph headed "Summary of material contracts'' in Appendix VIII to this prospectus, the two statements of adjustments made by BDO McCabe Lo & Company and PCP CPA Limited in arriving at the figures set forth in the accountants' report and the audited financial information of KARIO, the text of which set forth in Appendix I and Appendix II to this prospectus respectively.

DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection at the offices of Iu Lai and Li at 20th Floor, Gloucester Tower, The Landmark, 11 Pedder Street, Central, Hong Kong during normal business hours up to and including Thursday, 16th June, 2005:

(a) the memorandum of association of the Company and the Articles;

(b) the instrument constituting the Warrants;

(c) the accountants' report prepared by BDO McCabe Lo & Company and PCP CPA Limited, the text of which is set out in Appendix I to this prospectus and the related statement of adjustments;

(d) the audited financial information of KARIO, the text of which is set out in Appendix II to this prospectus and the related statement of adjustments;

(e) the letter prepared by BDO McCabe Lo & Company and PCP CPA Limited relating to pro forma financial information, the texts of which are set forth in Appendix III to this prospectus;

(f) the letters relating to the profit estimate of the Group, the texts of which are set forth in Appendix IV to this prospectus;

(g) the letter, summary of values and valuation certificate relating to the property interests of the Group prepared by B.I. Appraisals Limited, the texts of which are set out in Appendix V to this prospectus;

(h) the rules of the Share Option Scheme;

(i) the rules of the Pre-IPO Share Option Scheme and a full list of all the grantees who have been conditionally granted options under the Pre-IPO Share Option Scheme;

(j) the PRC legal opinion dated 31st May, 2005 issued by King and Wood, the legal adviser of the Company, on laws of the PRC;

(k) the letter of advice prepared by Conyers Dill & Pearman summarising certain aspects of the Cayman Islands company law;

(l) the Companies Law;

(m) the material contracts referred to in the paragraph headed "Summary of material contracts" under the section headed "Further information about the business of the Group" in Appendix VIII to this prospectus;

(n) the service contracts and the letters of appointment referred to in the paragraph headed "Particulars of Directors' service contracts" under the section headed "Further information about the Directors, management, staff and substantial shareholders" in Appendix VIII to this prospectus; and

(o) the written consents referred to in the paragraph headed "Consents of experts" under the section headed "Other information" in Appendix VIII to this prospectus.