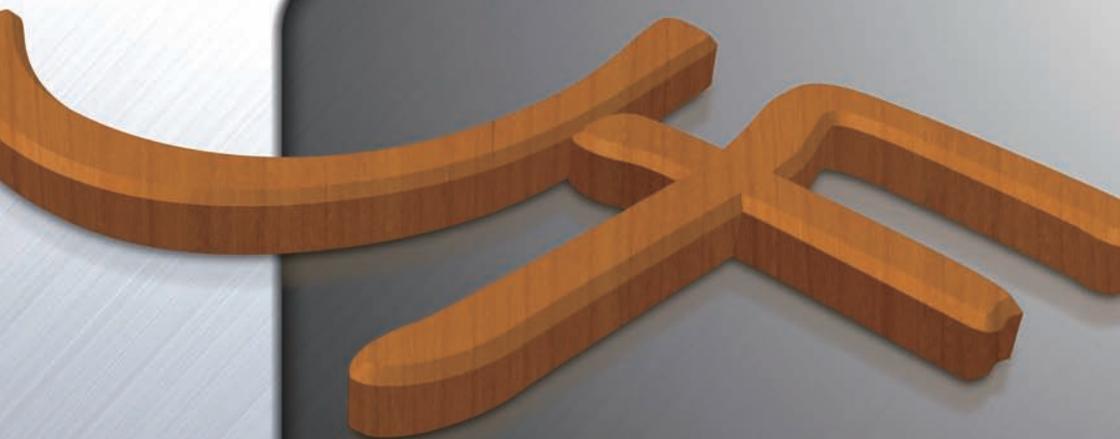


2nd Quarterly Report 2008



JF Household Furnishings Limited

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 8310)

CHARACTERISTICS OF THE GROWTH ENTERPRISE MARKET (“GEM”) OF THE STOCK EXCHANGE OF HONG KONG LIMITED (THE “STOCK EXCHANGE”)

GEM has been positioned as a market designed to accommodate companies to which a higher investment risk may be attached than other companies listed on the Stock Exchange. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration. The greater risk profile and other characteristics of GEM mean that it is a market more suited to professional and other sophisticated investors.

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

The Stock Exchange takes no responsibility for the contents of this report, make no representation as to its accuracy or completeness and expressly disclaims any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this report.

This report, for which the directors (the “Directors”) of JF HOUSEHOLD FURNISHINGS LIMITED (the “Company”) collectively and individually accept full responsibility, includes particulars given in compliance with The Rules Governing the Listing of Securities on GEM of the Stock Exchange (the “GEM Listing Rules”) for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief: (i) the information contained in this report is accurate and complete in all material respects and not misleading; (ii) there are no other matters the omission of which would make any statement in this report misleading; and (iii) all opinions expressed in this report have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.

As at this date of this document, the directors of the Company are:

Executive Directors:

Mr. Yan Siu Wai
Mr. Leung Kwok Yin
Mr. Bao Jisheng

Non-executive Director:

Mr. Kwan Kai Cheong

Independent non-executive Directors:

Mr. Yu Hon Wing Allan
Mr. Garry Alides Willinge
Mr. Chu Kwok Man

HIGHLIGHTS

- Turnover of the Group for the six months ended 30 June 2008 amounted to approximately HK\$177.0 million (2007: HK\$136.7 million), representing an increase of approximately 29.4% as compared to the corresponding period last year.
- Net profit attributable to equity holders of the Company for the six months ended 30 June 2008 amounted to approximately HK\$12.6 million (2007: approximately HK\$8.94 million), representing an increase of approximately 41.1% as compared to the corresponding period last year.
- Earnings per share of the Group was approximately HK7.35 cents (2007: HK5.27 cents) for the six months ended 30 June 2008.

CONDENSED CONSOLIDATED INCOME STATEMENT

FOR THE PERIOD ENDED 30 JUNE 2008

The board of Directors (the "Board") of the Company is pleased to announce the unaudited results of the Company and its subsidiaries (collectively, the "Group") for the six months ended 30 June 2008, together with the unaudited comparative figures for the corresponding period in 2007 as follows:

	Notes	Unaudited Three months ended 30 June		Unaudited Six months ended 30 June	
		2008 HK\$'000	2007 HK\$'000	2008 HK\$'000	2007 HK\$'000
Turnover	3	102,014	85,777	176,955	136,701
Cost of sales		(86,602)	(73,286)	(148,432)	(115,519)
Gross Profit		15,412	12,491	28,523	21,182
Other Revenue/Expenses	4	(913)	264	1,018	354
Selling and Distribution Costs		(859)	(804)	(1,991)	(1,591)
Administrative expenses		(4,507)	(3,454)	(8,274)	(5,870)
Profit from Operations		9,133	8,497	19,276	14,075
Finance costs		(1,512)	(313)	(2,577)	(772)
Profit before taxation	5	7,621	8,184	16,699	13,303
Taxation	6	(2,082)	(2,708)	(4,093)	(4,366)
Profit attributable to the Equity holders of the Company		5,539	5,476	12,606	8,937
Profit Distributions/Dividend	7	0	0	0	0
Basic earnings per share (cents)	8	3.21	3.23	7.35	5.27

CONDENSED CONSOLIDATED BALANCE SHEET

	Notes	Unaudited At 30 June 2008 HK\$	Audited At 31 December 2007 HK\$
NON-CURRENT ASSETS			
Property, plant and equipment	9	61,127,829	56,946,256
Land use right		19,224,787	18,072,369
Deposit paid for Land use right	10	21,611,293	—
Available-for-sale financial assets		2,000,000	—
		103,963,909	75,018,625
CURRENT ASSETS			
Deposits and other receivables		5,879,093	5,600,919
Inventories		91,833,065	92,507,698
Financial assets at fair value through profit or loss		344,643	2,288,887
Trade receivables	11	44,313,078	35,731,827
Due from related companies	12	8,634	—
Pledged bank deposit		1,741,705	2,085,047
Bank and cash balances		24,867,278	18,473,982
		168,987,496	156,688,360
TOTAL ASSETS		272,951,405	231,706,985

	Notes	Unaudited At 30 June 2008 HK\$	Audited At 31 December 2007 HK\$
Bills Payables		1,137,436	—
Bank borrowings		98,031,616	68,679,413
Trade Payables	13	23,026,458	29,980,551
Other Payables and accruals		8,804,345	6,979,265
Due to directors		540,000	540,000
Provision for taxation		4,420,639	3,011,352
Finance lease payables		2,049,267	1,903,207
		138,009,761	111,093,788
NET CURRENT ASSETS		30,977,735	45,594,572
NON-CURRENT LIABILITIES			
Finance lease payables		3,361,204	4,282,215
		3,361,204	4,282,215
NET ASSETS		131,580,440	116,330,982
CAPITAL AND RESERVES			
Share capital		1,733,400	1,709,400
Reserves		129,847,040	114,621,582
TOTAL EQUITY		131,580,440	116,330,982

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Unaudited For the six months ended 30 June 2008 HK\$'000	Unaudited For the six months ended 30 June 2007 HK\$'000
TOTAL EQUITY		
Balance at beginning of period	116,331	89,524
Profit for the period	12,606	8,937
Issuance of new shares	1,584	0
Foreign currency translation reserve	9,676	3,056
Dividend paid on shares	(8,617)	(8,309)
Balance at end of period	131,580	93,208

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

	Unaudited For the six months ended 30 June 2008 HK\$'000	Unaudited For the six months ended 30 June 2007 HK\$'000
Net cash generated from operating activities	8,942	918
Net cash used in investing activities	(25,618)	(21,440)
Net cash generated from financing activities	14,047	39,318
Net increase (decrease) in cash & cash equivalents	(2,629)	18,796
Cash and cash equivalents at 1 January	15,003	9,397
Effect of foreign exchange rate changes	8,618	1,663
Cash and cash equivalents at 30 June	20,992	29,856

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. Company reorganisation and basis of preparation

The Company was incorporated as an exempted company with limited liability in the Cayman Islands on 19 January 2005 under the Companies Law, Cap 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands. Pursuant to a group reorganisation, details of which are set out in the paragraph headed "Corporate reorganisation" in the section headed "Further information about the Company" in Appendix V to the prospectus of the Company dated 5 October 2005, the Company became the holding company of the subsidiaries of the Group. The shares of the Company are listed on GEM.

2. Basis of preparation and principal accounting policies

The unaudited quarterly results have been prepared in accordance with accounting principles generally accepted in Hong Kong and comply with accounting standards issued by the Hong Kong Institute of Certified Public Accountants. They have been prepared under the historical cost convention and in accordance with the applicable disclosure requirements of Chapter 18 of the GEM Listing Rules and the disclosure requirements of the Hong Kong Companies Ordinance.

The accounting policies adopted in preparing the unaudited consolidated results for the six months ended 30 June 2008 are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2007.

3. Turnover

The Group is principally engaged in manufacturing and sales of (i) furnishings and home products and accessories primarily used in the kitchens and bathroom with stainless steel as raw materials, and (ii) wooden panel furniture. Turnover represents invoiced value of goods sold, net of value-added tax, and after allowance for goods returned and trade discounts. Turnover for the two separate businesses can be summarized as follows:

	Unaudited six months ended 30 June	
	2008 HK\$'000	2007 HK\$'000
Stainless steel products	122,054	123,415
Timber products	54,901	13,286
Total	176,955	136,701

4. Other Revenue

Other revenue for the six months ended 30 June 2008 amounted to approximately HK\$1.02 million (2007: approximately HK\$0.354 million). The increase was mainly because of a revaluation gain of HK\$661,000 on forward exchange contracts.

5. Profit Before Taxation

	Six months ended 30 June Unaudited	
	2008 HK\$'000 (unaudited)	2007 HK\$'000 (unaudited)
Profit before taxation has been arrived at after charging/(crediting):		
Exchange Losses (Gains)	(30)	789
Depreciation of property, plant and equipment	2,460	789

6. Taxation

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

Pursuant to the relevant laws and regulations in the People's Republic of China ("PRC"), 寧波捷豐家居用品有限公司 (JF A.C.R. Equipment Supplies (Ningbo) Co., Ltd.) ("JF Ningbo"), a subsidiary of the Company operating in Zhejiang Province, the PRC, is subject to enterprise income tax rate at 25% on its taxable profit in accordance with the relevant income tax laws of the PRC.

Pursuant to the relevant laws and regulations in the PRC, JF Ningbo was entitled to a 50% reduction for the enterprise income tax for the year 2007 as over 70% of the goods sold were exported goods. No such reduction in enterprise income tax would be granted for the year 2008.

Pursuant to the relevant laws and regulations in the PRC, 寧波捷豐金屬制品有限公司 (Ningbo JF Metal Products Co. Ltd.) ("JF Metal") and 寧波捷豐現代傢俱有限公司 (Ningbo JF Furniture Co. Ltd.) ("JF Furniture"), two subsidiaries of the Company operating in Zhejiang Province, the PRC, are subject to enterprise income tax rate at 25% on its taxable profit in accordance with the relevant income tax laws of the PRC. Each of JF Metal and JF Furniture is entitled to a two-year exemption from enterprise income tax starting from its first profitable year of operation and followed by a 50% tax reduction for the subsequent three years. No provision for PRC enterprise income tax has been made for JF Metal and JF Furniture as JF Metal and JF Furniture may commence its tax holiday from 2008.

7. Dividends

The Directors do not recommend the payment of dividend for the six months ended 30 June 2008. (2007: Nil)

8. Basic earnings per share

The calculation of basic earnings per share is based on the consolidated profit attributable to shareholders during the six month period ended 30 June 2008 of approximately HK\$12.6 million (2007: approximately HK\$8.94 million) and weighted average of 171,530,110 ordinary shares of the Company during the six months ended 30 June 2008, (2007: 169,585,000 ordinary shares).

9. Property, plant and equipment

	Buildings	Machinery	Motor	Office	Construction	Total
	HKD	HKD	Vehicles	Equipment	in progress	HKD
			HKD	HKD	HKD	
Cost						
At 1 January 2008	34,830,258	23,482,742	1,662,542	2,039,606	1,077,313	63,092,461
Additions	0	778,007	0	99,274	1,515,911	2,393,192
Transfers	0	0	0	0	0	0
Exchange Adjustment	2,608,038	1,771,085	124,489	126,678	80,668	4,710,958
At 30 June 2008	37,438,296	26,031,834	1,787,031	2,265,558	2,673,893	70,196,611
Accumulated depreciation						
At 1 January 2008	2,354,634	2,553,904	743,121	494,546	0	6,146,205
Charge for the period	842,310	1,145,607	134,589	337,356	0	2,459,863
Exchange Adjustment	176,312	196,856	55,644	33,902	0	462,714
At 30 June 2008	3,373,256	3,896,367	933,354	865,804	0	9,068,782
Net book value						
At 30 June 2008	34,065,039	22,135,467	853,677	1,399,754	2,673,893	61,127,829
At 31 December 2007	32,475,624	20,928,838	919,421	1,545,060	1,077,313	56,946,256

10. Deposit paid for Land use right

At 30 June 2008 the Group paid HK\$21,611,293 as the consideration for acquisition of the land use right of a parcel of land located in Yaobei district in Yuyao, Zhejiang Province for a term of 50 years. The Group is in the process of obtaining the relevant Land Use Rights Certificate.

11. Trade receivables

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

	At 30 June 2008 HK\$'000 (unaudited)	At 30 December 2007 HK\$'000 (audited)
0 - 30 days	35,293	34,476
31 - 60 days	8,825	1,140
61 - 90 days	70	
> 90 days	125	116
	44,313	35,732

12. Due from related companies

The amounts due from related companies represent utility expenses due from Yuyao Jiefeng Air Conditioning Equipment Co., Ltd incurred through a shared meter.

13. Trade payables

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

	At 30 June 2008 HK\$'000 (unaudited)	At 30 December 2007 HK\$'000 (audited)
0 - 30 days	12,643	23,013
31 - 60 days	10,308	3,748
61 - 90 days	8	584
> 90 days	67	2,636
	23,026	29,981

14. Segment Information

The Group currently has two major lines of products, namely stainless steel products and timber products. Segment information about the two lines of products for the six months ended 30 June 2008 is presented below:

	Stainless Steel Products	Timber Products	Consolidated
	HK\$'000	HK\$'000	HK\$'000
Turnover	122,054	54,901	176,955
Segmented Result	18,779	3,713	22,492
Unallocated Corporate Expenses			(3,216)
Finance costs			(2,577)
Profit before taxation			16,699
Taxation			(4,093)
Net Profit			12,606

15. Liquidity, Financial Resources, Funding and Treasury Policy

As at 30 June 2008, the Group had bank and cash balances of approximately HK\$24.9 million (as at 31 December 2007: approximately HK\$18.5 million) and short term bank borrowings of approximately HK\$98.0 million (as at 31 December 2007: approximately HK\$68.7 million) respectively. Net current assets of the Group was approximately HK\$31.0 million, a lower level than that at 31 December 2007, which was approximately HK\$45.60 million. Non-current assets was increased from approximately HK\$75.0 million at 31 December 2007 to approximately HK\$104.0 million at 30 June 2008. The changes were mainly due to Company's strategy of expansion with the acquisition of land use rights for a new timber production plant to be constructed.

As at 30 June 2008, the Group had current liabilities of approximately HK\$138 million, higher than the level of approximately HK\$111 million at year end of 2007, to finance the expansion of business activities.

Most of the trading transactions, assets and liabilities of the Group were denominated in RMB, US Dollars and Hong Kong Dollars.

16. Gearing Ratio

As at 30 June 2008, the Group's gearing ratio, which was derived from the total borrowings to total assets, increased to 35.9%, up from 29.6% at 31 December 2007, as the Group had increased its borrowings to finance the acquisition of land use rights of new production plant to be constructed and to increase its working capital.

17. Future Plans for Material Investments

Save for the acquisition of land use rights, as disclosed in the Company's announcement dated 24 June 2008, the Company had no material acquisition or capital expenditure plan for the six months ended 30 June 2008.

18. Material Acquisitions and Disposals

Save for the acquisition of land use rights, as disclosed in the Company's announcement dated 24 June 2008, the Group did not have any material acquisitions and disposals for the six months ended 30 June 2008.

19. Contingent Liabilities

As at 30 June 2008, the Group had no contingent liabilities.

20. Foreign Exchange Exposure

All transactions of the Group are denominated in Renminbi, Hong Kong Dollars or US Dollars. As RMB has been appreciating faster recently, the Group's exchange losses will be larger as a large part of the Group's revenue are denominated in US Dollars. The management is taking steps to minimize the losses from the appreciation of the RMB currency.

21. Employees and Remuneration Policy

As at 30 June 2008, the Group employed approximately 866 staff in the PRC and Hong Kong. The Group's remuneration to employees, including Directors' emoluments, amounted to HK\$11 million for the period. The Group reviews employee remuneration annually and rewards its employee with reference to the length of services and performance. The Group also grants share options and bonuses to employees of the Group at the discretion of the Directors and based on the financial performance of the Group.

22. Capital Structure

Since the listing of the Company's shares on GEM of the Stock Exchange on 13 October 2005, there has been no change in the capital structure of the Company. The share capital of the Company comprises of ordinary shares only.

MANAGEMENT DISCUSSION AND ANALYSIS

Financial review

The Group's turnover for the six months ended 30 June 2008 amounted to approximately HK\$177.0 million, representing an increase of approximately 29.4% over the same period of 2007. The increase was mainly due to the increase in timber business turnover when the timber production continued to grow.

Timber business turnover for the six months ended 30 June 2008 amounted to approximately HK\$54.9 million, representing an increase of 313.2% over HK\$13.3 million achieved during the same period of 2007, as Timber Division only commenced full scale production in July of 2007. Turnover in the stainless steel products for the six months ended 30 June 2008 was approximately HK\$122.1 million, at about the same level of HK\$123.4 million for the same period in 2007. The growth was somewhat lower than expected as the Group was adjusting to the new policy of tightening labour laws and regulations in the PRC.

Overall gross profit margin of the Group for the six months ended 30 June 2008 increased slightly to about 16.1% from 15.5% in the six months ended 30 June 2007.

Gross profit margin for Stainless Steel Division was adversely affected as the average import tax refund percentage dropped from 11% during the 2007 period to an average of 5% during the six months ended 30 June 2008. However, the Division was able to manage an increase of gross profit margin from 16.55% in 2007 to 18.14% for the same period in 2008, as the stainless steel prices dropped in the second half of 2007.

Gross profit margin for the Timber Division also increased from 5.7% for the six months ended 30 June 2007 to 11.6% for the same period in 2008 as the management continued to research and improve economy of scale in the production.

Total expenses increased by HK\$4.61 million from approximately HK\$8.23 million for the six months ended 30 June 2007 to approximately HK\$12.84 million for the six months ended 30 June 2008, representing an increase of 56.0%. Such increase was mainly due to the higher operating costs associated with the timber production plant, including higher staff and welfare costs of HK\$1.36 million, higher transportation costs of HK\$0.69 million, higher amortization of land use rights of HK\$0.40 million. In addition, higher finance costs of HK\$1.8 million due to higher borrowing level and higher interest rates also attributed to the increase in expenses. The management is optimistic that the expenses ratio will drop considerably when the production of timber products reach a reasonable level.

Tax expenses reduced from approximately HK\$4.37 million for the six months ended 30 June 2007 to approximately HK\$4.09 million for the six months ended 30 June 2008, as the income tax rate reduced from 26.4% to 25% for the Stainless Steel subsidiary. Moreover, the subsidiary operating the Timber Division is in its first year of tax exemption. For the six months ended 30 June 2008, the Group recorded a net profit attributable to equity holders of Company of approximately HK\$12.6 million (six months ended 30 June 2007: approximately HK\$8.94 million), representing an increase of approximately 41.1%.

As at 30 June 2008, the Group had bank and cash balances of approximately HK\$24.9 million (as at 31 December 2007: approximately HK\$18.5 million) and short terms bank borrowings of approximately HK\$98.0 million (as at 31 December 2007: approximately HK\$68.7 million) respectively.

Business Review

Businesses of the Group continued to build over the foundation laid in 2006 and 2007. Turnover increased by close to 30% in the first half of 2008.

Operating environment continued to be challenging during the first half of the year. Manufacturing activities in the mainland China continued to be under pressure in general, as the currency (Renminbi) rising significantly during the first half of 2008, and labour costs increasing after the government tightened the labour laws and regulations. Moreover, the PRC government also tightened economic policies which also increase the finance costs. Management is studying various ways to improve efficiency through reorganized work flow, semi-automation and additional staff training and is confident the impact of these challenges can be minimized.

Production for the Stainless Steel Division was affected by the national policy of tightening labour laws and regulations. Business for the Division remained at around the same level as in 2007. To lessen the pressure of increasing labour costs arising from the compliance of tightened laws and regulations, the management has taken certain measures to uplift the labour efficiency.

Performance of the Timber Division continued to improve both on the technical level and profitability level. The Group's key customer has been highly satisfied with the Group's delivery of timber products, and has shifted the production of a series of kitchen cabinet products to the Group from its another supplier in the PRC.

Stainless steel prices have dropped during the six months ended 30 June 2008 which contributed to higher margin for the stainless steel products as compared to that of 2007.

Outlook

With the completion of the 30,000 square meters production plant for the timber production lines in July 2007 and the beginning of profitable production of timber products since the first quarter of 2008, the Group is in a strong position to deliver a sustainable return to the shareholders through the growth in existing product lines and to explore new opportunity for further expansion.

Since a series of kitchen cabinet products has been introduced to the Group by its key customer, the management has ordered equipment for the production of the series in the second half of the year.

The negotiation on the manufacture of an environmentally-friendly and low-cost new furniture series with its key customer continued in the second quarter of 2008. The Group had received positive feedback from the key customer and had completed trial production to the satisfaction of its key customer. Upon receipt of formal orders from the customer, the management will acquire relevant equipment for a pilot production run for this new furniture series. Further, if the negotiation is successful, it is expected that the Group will increase its production capacity to meet the production need of such new line of products. In order to prepare for the possible expansion in the scope of products, the Group has acquired a piece of new land of about 40,000 square meters adjacent to the existing timber production plant.

On 1 August 2008, the Company has submitted an application for the transfer of listing of its shares from GEM to the Main Board of the Stock Exchange. Management believes that the transfer will enhance the profile of the Group and expand the exposure for a larger institutional and retail investors base.

With the existing orders on hand, the management believes that the Group will maintain considerable growth and deliver reasonable return to the shareholders for the full year of 2008.

OTHER INFORMATION

1. Interests and Short Positions of Directors and Substantial Shareholders in Shares, Underlying Shares

The Directors who held office at 30 June 2008 had the following interests or short positions in the shares, underlying shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (Cap 571 of the Laws of Hong Kong) (the "SFO")) which are 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 been taken under such provisions of the SFO) or which were required pursuant to Section 352 of the SFO to be entered in the register referred to therein or which were required to be notified to the Company and the Stock Exchange pursuant to Rules 5.46 to 5.68 of the GEM Listing Rules relating to securities transaction by the Directors on the listing of the shares:

(a) Aggregate long positions in shares of the Company

Name of Director	Personal interests	Ordinary shares of HK\$0.01 each		Total
		Family interests	Corporate interests	
Mr. Yan Siu Wai	12,600,000	—	63,000,000	75,600,000 (Note 1)
Mr. Leung Kwok Yin	15,120,000	—	12,600,000	27,720,000 (Note 2)
Mr. Bao Ji Sheng	1,000,000	—	22,680,000	23,680,000 (Note 3)

Notes:

1. Among these 75,600,000 shares, (i) 34,020,000 shares were registered in the name of Excel Strength Investments Limited ("Excel Strength") and (ii) 28,980,000 shares were registered in the name of Willhero Investments Limited ("Willhero"); and (iii) the remaining 12,600,000 shares were registered in the name of Mr. Yan Siu Wai directly. Each of Excel Strength and Willhero is a company incorporated in the BVI and whose entire issued capital is solely owned by Mr. Yan Siu Wai. By virtue of the SFO, Mr. Yan Siu Wai was deemed to be interested in 63,000,000 shares through his shareholdings in Excel Strength and Willhero.

2. Among these 27,720,000 shares, (i) 12,600,000 shares were registered in the name of Joyday Consultants Limited ("Joyday") and (ii) the remaining 15,120,000 shares were registered in the name of Mr. Leung Kwok Yin directly. Joyday is a company incorporated in the BVI and whose entire issued capital is solely owned by Mr. Leung Kwok Yin. By virtue of the SFO, Mr. Leung Kwok Yin was deemed to be interested in 12,600,000 shares through his shareholdings in Joyday.
3. Among these 23,680,000 shares, (i) 22,680,000 shares were registered in the name of Hero Talent Investments Limited ("Hero Talent") and (ii) the remaining 1,000,000 shares were registered in the name of Mr. Bao Jisheng directly. Hero Talent is a company incorporated in the BVI and whose entire issued capital is solely owned by Mr. Bao Jisheng. By virtue of the SFO, Mr. Bao Jisheng was deemed to be interested in 22,680,000 shares through his shareholdings in Hero Talent.

(b) Aggregate long positions in equity derivatives in, or in respect of, underlying shares

As at 30 June 2008, three executive Directors have been granted options to subscribe for shares, details of which are set out as follows:

Name of Director	Number of Underlying Shares	Date of Grant	Exercise Period (Note)	Exercise price per share
Yan Siu Wai	4,435,200	8 September 2005	13 April 2006 to 12 October 2010	HK\$0.80
Mr. Leung Kwok Yin	2,956,800	8 September 2005	13 April 2006 to 12 October 2010	HK\$0.80
Mr. Bao Jisheng	2,360,000	8 September 2005	13 April 2006 to 12 October 2010	HK\$0.80

2. Substantial Shareholders

As at 30 June 2008, other than the interests disclosed above in respect of certain Directors, the Directors were not aware of any other persons who had an interests or a short positions in the shares or the underlying shares of the Company as recorded in the register required to be kept under section 336 of the SFO.

3. Share Options

By written resolutions passed on 8 September 2005, the then shareholders of the Company approved and adopted a share option scheme entitling the board of Directors to grant Share options at its discretion before the listing of the Shares (the “**Pre-IPO Share Option Scheme**”), and conditionally adopted a post-IPO share option scheme (the “**Post-IPO Share Option Scheme**”). Details of the Share options granted on 8 September 2005 pursuant to the Pre-IPO Share Option Scheme and remained outstanding as at 30 June 2008 are as follows:

	Options held as at 1 January 2008	Options held as at 30 June 2008	Exercise price (HK\$)	Options exercised during the six months ended 30 June 2008
(A) Employees	2,688,000	2,688,000	0.80	—
	3,780,000	2,380,000	0.56	1,400,000
(B) Directors	10,752,000	9,752,000	0.80	1,000,000
	17,220,000	14,820,000		2,400,000

Notes:

1. Save as disclosed above, no options granted under the Pre-IPO Share Option Scheme and the Post-IPO Share Option Scheme were still outstanding on 30 June 2008.
2. On 16 April 2008, a total of 1,400,000 share options granted under the Pre-IPO Share Option Scheme were exercised by the employees of the Company all at an exercise price of HK\$0.56 each. On 30 June 2008, 1,000,000 share options granted under the Pre-IPO Share Option Scheme were exercised by Mr Bao Jisheng, an executive director of the Company at an exercise price of HK\$0.80 each. Following the exercise of such share options, the total number of outstanding share options granted under the Pre-IPO Share Option Scheme is 14,820,000 as at 30 June 2008.

4. Competing Interests

None of the Directors, management shareholders or their respective associates (as defined in the GEM Listing Rules), had any interests in any business which compete or may compete with the Company or any other conflicts of interest which any such person may have with the Company.

5. Audit Committee

The Company has established an audit committee on 8 September 2005 with written terms of reference in compliance with Rules 5.28 to 5.33 of the GEM 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.

The audit committee provides an important link between the Board and the Company's auditors in matters coming within the scope of the Group's audit.

It also reviews the effectiveness of both the external and internal audit and of internal controls and risk evaluation. The audit committee comprises three independent non-executive Directors, namely Mr. Yu Hon Wing Allan (chairman), Mr. Garry Alides Willinge and Mr. Chu Kwok Man and one non-executive Director, namely Mr. Kwan Kai Cheong.

The unaudited quarterly results for the six months ended 30 June 2008 has been reviewed by the audit committee.

6. Purchase, Sale or Redemption of Shares

The Company has not redeemed any of its shares during the period. Neither the Company nor any of its subsidiaries has purchased or sold any of the Company's shares during the period.

7. Corporate Governance Practices

The Group is committed to ensuring high standards of corporate governance and business practices. The Group has complied throughout the six months ended 30 June 2008 with the code provisions set out in the Code on Corporate Governance Practices contained in Appendix 15 of the GEM Listing Rules. The Board will continue to commit itself to achieving a high quality of corporate governance.

8. Directors' Securities Transactions

The Group has adopted a code of conduct regarding Directors' securities transactions as set out in Rules 5.48 to 5.67 of the GEM Listing Rules. Having made specific enquiry, all Directors have fully complied with the required standard set out in the GEM Listing Rules for the six months ended 30 June 2008.

Hong Kong, 11 August 2008

By order of the Board
Yan Siu Wai
Chairman