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

(Incorporated in the Cayman Islands with limited liability)

Stock Code : 8310

3rd Quarterly Report 2006

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

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

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

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

Independent non-executive Directors:

Mr. Kwan Kai Cheong
Mr. Garry Alides Willinge
Mr. Yu Hon Wing Allan

HIGHLIGHTS

- Turnover of the Group for the nine months ended 30 September 2006 amounted to approximately HK$121.0 million (2005: HK$146.7 million), representing a decrease of approximately 17.5% as compared to the corresponding period last year.

- Net profit attributable to equity holders of the Company for the nine months ended 30 September 2006 amounted to approximately HK$10.7 million (2005: HK$18.7 million), representing a decrease of approximately 42.7% as compared to the corresponding period last year.

- Earnings per share of the Group was approximately HK$6.36 cents (2005: HK$14.86 cents) for the nine months ended 30 September 2006.

UNAUDITED CONSOLIDATED INCOME STATEMENT

For the Period ended 30 September 2006

The board of directors (the "Board" or the "Directors") of the Company is pleased to announce the unaudited results of the Company and its subsidiaries (collectively, the "Group") for the nine months ended 30 September 2006, together with the unaudited comparative figures for the corresponding periods in 2005 as follows:

		Unaudited Three months ended 30 September		**Unaudited Nine months ended 30 September**	
		2006	2005	**2006**	2005
	Notes	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Turnover	*3*	**52,167**	51,888	**120,976**	146,680
Cost of sales		**(42,405)**	(41,942)	**(98,669)**	(118,864)
Gross Profit		**9,762**	9,946	**22,307**	27,816
Other Revenue	*4*	**62**	58	**2,526**	602
Selling and Distribution Costs		**(577)**	(385)	**(1,340)**	(1,038)
Administrative expenses		**(2,811)**	(1,349)	**(7,162)**	(4,849)
Profit from Operations		**6,437**	8,269	**16,331**	22,531
Finance costs		**(304)**	(324)	**(730)**	(912)
Profit before taxation		**6,133**	7,945	**15,601**	21,619
Taxation	*5*	**(1,936)**	(1,149)	**(4,867)**	(2,895)
Profit attributable to the Equity holders of the Company		**4,197**	6,796	**10,734**	18,724
Profit Distributions/Dividend	*6*	**0**	0	**0**	0
Earnings per share (cents)	*7*	**2.48**	5.39	**6.36**	14.86

NOTES TO THE 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, further details of which are set out in the paragraph headed "Corporate Reorganisation" in the section headed "Further information about the Company" in Appendix V to the prospectus of the Company dated 5 October 2005 (the "Corporate Reorganisation"), the Company became the holding company of the subsidiaries of the Group. The shares of the Company are listed on GEM.

The Group resulting from the Corporate Reorganisation is regarded as a continuing entity. Accordingly, the unaudited financial statements of the Group made up to 30 September 2006 and 30 September 2005 have been prepared on the basis as if the Company had always been the holding company of the Group using the principles of merger accounting in accordance with the Accounting Guideline 5 "Merger Accounting for Common Control Combinations" issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA"). In the opinion of the directors, the group financial statements prepared on the above basis present fairly the results and the state of affairs of the Group as a whole.

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 nine months ended 30 September 2006 are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2005.

3. Turnover

The Group is principally engaged in manufacturing and sales of furnishings and home products and accessories primarily used in the rooms, kitchens and bathroom. Turnover represents invoiced value of goods sold, net of value-added tax, and after allowance for goods returned and trade discounts.

4. Other Revenue

Other revenues include an one-off grant of HK$1.93 million (RMB 2.0 million) in the first quarter of 2006 by the Yuyao government for encouraging product development of the Group.

5. 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 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 26.4% on its taxable profit in accordance with Income Tax Law of People's Republic of China for Enterprises with Foreign Investment and Foreign Enterprises.

JF Ningbo is entitled to a 50% tax refund in 2007 for the tax paid in 2006, if it, as a foreign-invested enterprise, exports 70% or more of the total sales during a full financial year.

Under this provision, the Group has to pay a 26.4% tax for a full year and the refund of half of that tax (13.2%) from the government will be made normally in the second quarter of the following year. No provision for this refund has been included in the tax calculation for this reporting.

Pursuant to the relevant laws and regulations in the PRC, 寧波捷豐金屬用品有限公司 (Ningbo JF Metal Products Co. Ltd.) ("JF Metal"), a subsidiary of the Company operating in Zhejiang Province, the PRC, is subject to enterprise income tax rate at 26.4% on its taxable profit in accordance with Income Tax Law of People's Republic of China for Enterprises with Foreign Investment and Foreign Enterprises. JF Metal is entitled to a two-year exemption from enterprise income tax starting from its first profit-making year followed by a 50% reduction for the subsequent three years. JF Metal commenced its business in 2005 and is still exempted from enterprise income tax for the second tax year in 2006.

6. **Dividends**

The Directors do not recommend the payment of dividend for the nine months ended 30 September 2006. (2005: Nil)

7. **Earnings per share**

The calculation of basic earnings per share is based on the consolidated profit attributable to shareholders during the nine month period ending 30 September 2006 of approximately HK$10.7 million (2005: approximately HK$18.7 million) and weighted average of 168,693,388 ordinary shares of the Company during the nine months ended 30 September 2006, (2005: 126,000,000 ordinary shares of the Company in issue on 9 September 2005, assuming the shares were outstanding for the entire periods).

8. **Reserve**

	For the nine months ended 30 September	
	2006	2005
	HK$'000	*HK$'000*
TOTAL EQUITY		
Balance at beginning of period	**75,154**	25,304
Profit for the period	**10,734**	18,724
Revaluation Reserve	**19**	724
Issuance of new shares	**809**	—
Dividend declared on shares	**(9,489)**	—
Balance at end of period	**77,227**	44,752

MANAGEMENT DISCUSSION AND ANALYSIS

Financial review

For the nine months ended 30 September 2006, the Group's turnover amounted to HK$121.0 million, representing a reduction of 17.5% compared to the same period of 2005. The decrease in turnover was mainly due to a major inventory reduction exercise by the Group's major customer, and to a reduction in prices of stainless steel products resulting from the use of a different type of steel materials (type 430 in place of type 304). The use of the cheaper steel materials, mutually agreed with the Group's major customer, is intended to reduce risks associated with increasing steel prices.

Gross profit margin of the Group for the nine months ended 30 September 2006 was approximately 18.4% (for the nine months ended 30 September 2005: approximately 19.0%) The slight decrease in gross profit margin was mainly attributable to cost increases related to the appreciation of the Renminbi currency.

Total expenses increased from approximately HK$5.9 million for the nine months ended 30 September 2005 to approximately HK$8.50 million for the nine months ended 30 September 2006. The increase in total expenses of HK$2.6 million was mainly due to the additional staff costs (as the Group sought to diversify its customer base); additional costs from the new Macau office; the increase in professional and group office expenses related to listing on the Hong Kong Stock Exchange; and the loss resulting from the revaluation of Renminbi currency.

For the nine months ended 30 September 2006, the Group recorded a net profit attributable to equity holders of approximately HK$10.7 million (for the nine months ended 30 September 2005: approximately HK$18.7 million), representing a decrease of approximately 42.7% . The decrease in the Group's net profit was mainly due to lower turnover, higher expenses and provision at a higher tax rates of 26.4% in 2006 (a 50% tax refund will likely be adjusted by the end of this financial year due to the achievement of export revenue) compared with 13.2% in 2005.

As at 30 September 2006, the Group had bank and cash balances of approximately HK$19.9 million (as at 30 September 2005: approximately HK$7.55 million) and short term bank borrowings of approximately HK$24.4 million (as at 30 September 2005: approximately HK$15.9 million) respectively.

Business Review

During the nine months ended 30 September 2006, the Group's management effort has been focused on creating new products for potential new customers and on rolling out new products from the pilot production line for timber products.

Turnover for the 3rd quarter of 2006 returned to the same level as in the 3rd quarter of 2005. However, profitability was still lower than that of 2005 as the Group expanded its office to Macau and increased its staff to manage diversification of the customer base. Profit was also adversely affected by the provision of higher tax expenses (a 50% tax refund will likely be adjusted by the end of this financial year due to the achievement of export revenue), higher costs related to listing, and the appreciation of the Renminbi currency.

Management is pleased to report that the Group commenced production of timber products in August this year and the progress has been satisfactory. Monthly delivery has steadily increased to around Rmb 2 million per month. Customer satisfaction has been good.

The Group has been busy in preparing for a new timber production plant with five times more capacity. Construction for the new building in the Group's new site is in progress and is expected to provide 30,000 m^2 floor area for the timber products production (current space for the pilot production line is around 2,000 m^2). Production equipment has been ordered from an Italian manufacturer.

Outlook

After much effort of preparation during the first three quarters of 2006, the management is confident that the consolidation stage is over and its major initiatives begins to yield further positive results.

In the new timber business, the Group will continue to improve the relevant production processes and prepare for the major expansion of the Group's timber production when the 30,000 m^2 production facilities is expected to be completed by the end of February 2007 (current total production floor space of the Group is about 15,000 m^2).

In customer diversification, the Group has dedicated a special task force to prepare the Group for the particular requirements of a number of potential customers, and management is hopeful that the effort will result in some meaningful orders from new customers.

For existing customers, a substantial order has been placed by the Group's major customer for new stainless steel products. Overall, the management is optimistic that Group has returned to a growing pace in the forth coming financial year.

OTHER INFORMATION

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

The Directors who held office on 30 September 2006 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 5.67 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	Ordinary shares of HK$0.01 each Personal interests	Family interests	Corporate interests	Total
Mr. Yan Siu Wai	12,600,000	—	63,000,000	75,600,000 *(Note 1)*
Mr. Leung Kwok Yin	15,120,000	—	35,280,000	50,400,000 *(Note 2)*

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 50,400,000 shares, (i) 22,680,000 shares were registered in the name of Hero Talent Investments Limited ("Hero Talent") and (ii) 12,600,000 shares were registered in the name of Joyday Consultants Limited ("Joyday"); and (iii) the remaining 15,120,000 shares were registered in the name of Mr. Leung Kwok Yin directly. Each of Hero Talent and Joyday is a company incorporated in the BVI and whose entire issued capital is solely owned by Mr. Leung Kwok Yin. By virtue of the SFO, Mr. Leung Kwok Yin was deemed to be interested in 35,280,000 shares through his shareholdings in Hero Talent and Joyday.

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

As at 30 September 2006, 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	3,360,000	8 September 2005	13 April 2006 to 12 October 2010	HK$0.80

Note:

The exercise of the options by the Directors is, however, subject to a moratorium period of 12 months. Please see details set out in paragraph headed "Share Options" below.

2. Substantial Shareholders

As at 30 September 2006, 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 September 2006 are as follows:

		Options held as at 8 September 2005	Options held as at 30 September 2006	Exercise price *(HK$)*	Exercisable in April 2006	Exercisable in September 2006 *(note)*
(A)	**Employees**	2,688,000	2,688,000	0.80	2,688,000	
		6,720,000	5,275,000	0.56	5,275,000	
(B)	**Directors**	10,752,000	10,752,000	0.80		10,752,000
		20,160,000	18,715,000		7,963,000	10,752,000

Note:

Taking into account the moratorium period of 12 months, the Directors may only exercise the options starting in September 2006.

Save as disclosed above, no options had been granted under the Pre-IPO Share Option Scheme and the Post-IPO Share Option Scheme. None of the Share options granted were exercised as at 30 September 2006.

4. Competing Interests

None of the Directors, management shareholders or their respective associates (as defined in 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. Compliance Adviser Interest

As at 30 September 2006, neither Tanrich Capital Limited ("TCL") nor its directors, employees or associates, as defined in the GEM Listing Rules, had any interest in the securities of the Company or right to subscribe for or to nominate person to subscribe for securities of the Company.

Pursuant to the compliance adviser agreement dated 15 September 2006 which was entered into between the Company and TCL, TCL has been appointed as the compliance adviser to the Company as required under the GEM Listing Rules at a fee for the period commencing from 15 September 2006 until the agreement is terminated upon the terms and conditions set out therein.

6. Audit Committee

The Company has established an audit committee on 8 September 2005 with written terms of reference in compliance with Rules 5.28 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 Garry Alides Willinge, Yu Hon Wing Allan and Kwan Kai Cheong and Kwan Kai Cheong is the chairman of the audit committee.

The unaudited quarterly results for the nine months ended 30 September 2006 has been reviewed by the audit committee.

7. 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.

8. Board Practices and Procedures

The Company's board members have been briefed on the Rules 5.34 to 5.45 of the GEM Listing Rules regarding securities transactions by directors., The Company has made specific enquiry of all Directors and the Company was not aware of any non-compliance with the required standard of dealings and its code of conduct regarding securities transactions by Directors.

By order of the Board
Yan Siu Wai
Chairman

Hong Kong, 13 November 2006