



JF Household Furnishings Limited

(Incorporated in the Cayman Islands with limited liability)

Stock Code: 8310



First Quarterly Report 2007

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As at the date of this *report*, 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 three months ended 31 March 2007 amounted to approximately HK\$50.9 million (2006: approximately HK\$31.8 million), representing an increase of approximately 60.1% as compared to the corresponding period last year.
- Profit attributable to equity holders of the Company for the three months ended 31 March 2007 amounted to approximately HK\$3.46 million (2006: approximately HK\$4.36 million), representing a decrease of approximately 20.6% as compared to the corresponding period last year.
- Earnings per share of the Group was approximately HK\$2.04 cents (2006: approximately HK\$2.59 cents) for the three months ended 31 March 2007.

UNAUDITED CONSOLIDATED INCOME STATEMENT

FOR THE THREE MONTHS ENDED 31 MARCH 2007

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 three months ended 31 March 2007, together with the unaudited comparative figures for the corresponding period in 2006 as follows:

	Notes	Unaudited Three months ended 31 March	
		2007 HK\$'000	2006 HK\$'000
Turnover	3	50,924	31,768
Cost of sales		(42,234)	(26,247)
Gross Profit		8,690	5,521
Other Revenue	4	89	1,954
Selling and Distribution Costs		(787)	(296)
Administrative expenses		(2,416)	(1,569)
Profit from Operations		5,576	5,611
Finance costs		(458)	(180)
Profit before taxation		5,118	5,431
Taxation	5	(1,657)	(1,076)
Profit attributable to the Equity holders of the Company		3,461	4,355
Profit Distributions/Dividend	6	0	0
Earnings per share(cents)	7	2.04	2.59

NOTES TO THE FINANCIAL STATEMENTS

1. General Information

The Company was incorporated in the Cayman Islands as an exempted company with limited liability under the Companies Law of the Cayman Islands. The address of its registered office is Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman, KY1-1111, Cayman Islands. The address of its principal place of business is 15th floor, EIB Tower, 4-6 Morrison Hill Road, Wanchai, Hong Kong. The Company's shares are listed on GEM. The Company is an investment holding company.

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 Companies Ordinance (Cap 32 of the Laws of Hong Kong).

The accounting policies adopted in preparing the unaudited consolidated results for the three months ended 31 March 2007 are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2006.

3. Turnover

The Group is principally engaged in manufacturing and sales of furnishings and home products and accessories primarily used in the 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 revenue in 2006 included an one-off grant of approximately HK\$1.93 million (RMB2.0 million) by the People's Government of Yuyao 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 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 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.

Pursuant to the relevant laws and regulations in the PRC, JF Ningbo is entitled to a 50% reduction for the enterprise income tax as over 70% of the goods sold were exported goods.

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 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 and JF Furniture are 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. No provision for PRC enterprise income tax has been made as JF Metal and JF Furniture incurred tax loss for the period.

6. Dividends

The Directors do not recommend the payment of dividend for the three months ended 31 March 2007 (2006: Nil).

7. Earnings per share

The calculation of basic earnings per share is based on the consolidated profit attributable to shareholders during the three month period ended 31 March 2007 of approximately HK\$3.46 million (2006: approximately HK\$4.36 million) and 169,585,000 ordinary shares of the Company outstanding during the 1st quarter of 2007 (2006: 168,000,000 ordinary shares of the Company outstanding during the 1st quarter of 2006).

8. Reserve

	Paid-in Capital	Share Premium	Merger reserve	Foreign exchange translation reserve	Capital reserve	General reserve	Employee share-based compensation reserve	Retained Profits	Proposed final dividend	Total
At 1 January 2006	1,680,000	21,593,529	7,358,082	567,597	131,901	8,138,302	2,350,190	23,845,880	9,488,920	75,154,401
Profit for the period								4,354,530		4,354,530
Profit Distributions										—
As 31 March 2006	1,680,000	21,593,529	7,358,082	567,597	131,901	8,138,302	2,350,190	28,200,410	9,488,920	79,508,931
At 1 January 2007	1,695,850	22,843,068	7,358,082	2,464,614	946,832	10,300,329	2,383,684	33,222,140	8,309,665	89,524,264
Profit for the period								3,461,203		3,461,203
Profit Distributions										—
As 31 March 2007	1,695,850	22,843,068	7,358,082	2,464,614	946,832	10,300,329	2,383,684	36,683,343	8,309,665	92,985,467

MANAGEMENT DISCUSSION AND ANALYSIS

Financial review

The Group's turnover for the three months ended 31 March 2007 amounted to approximately HK\$50.9 million, representing an increase of approximately 60.1% over the same period of 2006. Sales for the Group's key customer returned to a normal level after an inventory reduction exercise in early 2006. Turnover for stainless steel products increased by 37.5% to HK\$43.5 million for the three months ended 31 March 2007. Turnover for the new timber division amounted to HK\$6.1 million (2006: HK\$0.00) for the three months ended 31 March 2007.

Gross profit margin of the Group for the three months ended 31 March 2007 was approximately 17.1% (three months ended 31 March 2006: approximately 17.4%). Gross profit margin dropped slightly as prices for stainless steel materials continued to rise. The rise in costs was partly offset by the increase in prices given by customers.

Expenses had generally increased from last year as the Group expanded the scope of businesses. Total expenses increased from approximately HK\$2.04 million for the three months ended 31 March 2006 to approximately HK\$3.66 million for the three months ended 31 March 2007, representing an increase of 79.41%. The increase was mainly due to the increase of approximately HK\$334,000 in selling expenses, HK\$899,000 in administrative expenses, and HK\$283,000 in finance costs.

Selling and distribution expenses increased by 166% from 2006, mainly because of higher turnover and HK\$295,000 increase of transportation costs, of which about HK\$237,000 came from timber products. The ratio of transportation costs over sales for timber products was 3.88%, a ratio much higher than the 0.67% for stainless steel products. In addition, HK\$156,000 was paid for a consultant in the U.S. for representing the Group to identify new customers.

Administrative expenses increased from approximately HK\$1.57 million in 2006 to approximately HK\$2.42 million in 2007, mainly because of increase of HK\$335,000 staff costs; increase of HK\$208,000 legal and professional expenses; increase of HK\$222,000 exchange losses; and HK\$63,000 new taxes for educational contribution charged by the local government.

Finance costs increased from HK\$180,000 in 2006 to HK\$458,000 in 2007, as average bank borrowings increased from HK\$11.3 million in 2006 to HK\$28.3 million in 2007.

Tax expenses increased from approximately HK\$1.08 million for the three months ended 31 March 2006 to approximately HK\$1.66 million for the three months ended 31 March 2007, representing an increase of approximately 53.7%. No income tax was provided in the 1st quarter of 2006 for the one-off grant of approximately HK\$1.93 million (RMB 2.0 million) by the People's Government of Yuyao for encouraging product development of the Group.

For the three months ended 31 March 2007, the Group recorded a profit attributable to equity holders of Company of approximately HK\$3.46 million (three months ended 31 March 2006: approximately HK\$4.36 million), representing a drop of approximately 20.6%.

As at 31 March 2007, the Group had bank and cash balances of approximately HK\$4.94 million (as at 31 March 2006: approximately HK\$13.0 million) and short terms bank borrowings of approximately HK\$25.9 million (as at 31 March 2006: approximately HK\$15.7 million).

Business Review

After a year of reorganisation for preparing the large scale expansion in timber products in 2006, the Group has returned to growing path in the first quarter of this year. Turnover for the Group recorded a growth rate of approximately 60.1% in the first quarter, and management is expecting further growth for the rest of the year.

During the first quarter of 2007, the Group was still busy in completing the new 30,000m² plant, and the subsequent relocation plan for the existing timber line. The two timber production lines ordered from Italy had arrived in the relevant period, one in late February 2007, and the other in March 2007. The new equipment was being installed and tested.

Expenses in the first quarter of 2007 were generally higher than that in 2006 as the Group continuously expands its scope of businesses. Once the new timber business grows to a meaningful level which is expected in the second half year, the impact of the increase in expenses may be minimized. Management is also formulating measures to save costs such as switching more of the borrowing from Renminbi to Hong Kong dollar to lessen the impact from the appreciation of Renminbi.

Outlook

The Group's new production plant has been completed in March 2007. An additional 30,000m² floor space is now available for the Group's production.



Once the two new timber production lines from Italy are successfully installed and tested which are expected to be completed in mid-May, the existing pilot timber line will be relocated to the new plant and will free up more space for the Group's stainless steel division.

With the completion of the new plant and the availability of space which is three times to the original production plant, the Group is now ready for a significant expansion both in the diversification of products and diversification in customers.

2007 will begin a new phase for the Group as the new timber production lines are gradually in place. Management is highly confident that the Group will deliver satisfactory results for shareholders for this financial year.

OTHER INFORMATION

1. Interests and short positions of Directors shares, underlying shares and debenture of the Company or its associated corporations

The Directors who held office as at 31 March 2007 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 were 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 were as follows:

(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	—	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 British Virgin Islands ("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 31 March 2007, three executive Directors have been granted options to subscribe for shares pursuant to the Pre-IPO Share Option Scheme (as defined in the paragraph headed "Share Options" below). 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
Mr. Yan Siu Wai	4,435,200	8 September 2005	13 April 2006 to 12 October 2010	HK\$0.80
Mr. Leung Kwok Yin	2,956,000	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 was subject to a moratorium period of 12 months which had expired on 12 October 2006.

2. Substantial Shareholders

As at 31 March 2007, other than the interests disclosed above in respect of certain Directors, the Directors were not aware of any other persons who had interests or 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 31 March 2007 were as follows:

	Options held as at 1 January 2007	Options held as at 31 March 2007	Exercise price (HK\$)	Exercisable in April 2006	Exercisable in October 2006
(A) Employees	2,688,000	2,688,000	0.80	2,688,000	
	5,135,000	5,135,000	0.56	5,135,000	
(B) Directors	10,752,000	10,752,000	0.80		10,752,000
	<u>18,575,000</u>	<u>18,575,000</u>		<u>7,823,000</u>	<u>10,752,000</u>

Note: 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 during the three months ended 31 March 2007.

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 Interests

As at 31 March 2007, 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's 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 with written terms of reference in accordance with Rules 5.28 to 5.33 of the GEM Listing Rules. The primary duties of the audit committee are to review the Company's annual report and accounts, half-year reports and quarterly reports and to provide advice and comments thereon to the Board. The audit committee is also responsible for reviewing internal control procedures of the Group.

The audit committee 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. Kwan Kai Cheong (chairman), Mr. Garry Alides Willinge and Mr. Yu Hon Wing Allan.

The unaudited quarterly results for the three months ended 31 March 2007 had 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. Corporate Governance Practices

The Group is committed to ensuring high standards of corporate governance and business practices. The Group has complied throughout the three months ended 31 March 2007 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.

9. 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 Rules for the three months ended 31 March 2007.

By order of the Board
Yan Siu Wai
Chairman

Hong Kong, 10 May 2007