



JF Household Furnishings Limited

(Incorporated in the Cayman Islands with limited liability)

Stock Code: 8310



Third Quarterly Report 2007

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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 the date of this report, the Directors 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 (as defined below) for the nine months ended 30 September 2007 amounted to approximately HK\$253.1 million (2006: approximately HK\$121.0 million), representing an increase of approximately 109.2% as compared to the corresponding period of last year.
- Net profit attributable to equity holders of the Company for the nine months ended 30 September 2007 amounted to approximately HK\$17.1 million (2006: approximately HK\$10.7 million), representing an increase of approximately 59.3% as compared to the corresponding period last year.
- Earnings per share of the Group was approximately HK\$10.07 cents (2006: approximately HK\$6.36 cents) for the nine months ended 30 September 2007.

UNAUDITED CONSOLIDATED INCOME STATEMENT

FOR THE PERIOD ENDED 30 September 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 nine months ended 30 September 2007, together with the unaudited comparative figures for the corresponding periods in 2006 as follows:

	Notes	Unaudited Three months ended 30 September		Unaudited Nine months ended 30 September	
		2007 HK\$'000	2006 HK\$'000	2007 HK\$'000	2006 HK\$'000
Turnover	3	116,374	52,167	253,075	120,976
Cost of sales		(100,703)	(42,405)	(216,222)	(98,669)
Gross Profit		15,672	9,762	36,853	22,307
Other Revenue	4	310	62	664	2,526
Selling and Distribution Costs		(1,626)	(577)	(3,218)	(1,340)
Administrative expenses		(3,241)	(2,811)	(9,111)	(7,162)
Profit from Operations		11,115	6,437	25,189	16,331
Finance costs		(911)	(304)	(1,682)	(730)
Profit before taxation		10,204	6,133	23,507	15,601
Taxation	5	(2,045)	(1,936)	(6,411)	(4,867)
Profit attributable to the Equity holders of the Company		8,158	4,197	17,096	10,734
Profit Distributions/Dividend	6	0	0	0	0
Earnings per share (cents)	7	4.81	2.48	10.07	6.36

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 Hong Kong Companies Ordinance.

The accounting policies adopted in preparing the unaudited consolidated results for the nine months ended 30 September 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 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 for the nine months ended 30 September 2007 amounted to approximately HK\$0.66 million (2006: approximately HK\$2.53 million), representing a decrease because other revenues in the first quarter of 2006 include an one-off grant of HK\$1.93 million (RMB2.0 million) by the People's Government of Yuyao for encouraging product development of the Group.

5. Taxation

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% 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 period.

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 nine months ended 30 September 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 nine month period ended 30 September 2007 of approximately HK\$17.1 million (2006: approximately HK\$10.7 million) and weighted average of 169,687,363 ordinary shares of the Company during the nine months ended 30 September 2007, (2006: Weighted average of 168,693,388 ordinary shares).

8. Reserve

	For the nine months ended 30 September	
	2007 HK\$'000	2006 HK\$'000
TOTAL EQUITY		
Balance at beginning of period	89,524	75,154
Profit for the period	17,095	10,734
Revaluation Reserve	3,690	19
Issuance of new shares	227	809
Dividend declared on shares	(8,310)	(9,489)
Balance at end of period	102,226	77,227

MANAGEMENT DISCUSSION AND ANALYSIS

Financial review

For the nine months ended 30 September 2007, the Group's turnover amounted to approximately HK\$253.1 million, representing an increase of approximately 109.2% over the same period of 2006. The increase in turnover was mainly due to the RMB83.3 million increase in stainless steel products and the RMB31.1 million increase in timber products.

Gross profit margin of the Group for the nine months ended 30 September 2007 was approximately 14.6% (for the nine months ended 30 September 2006: approximately 18.4%). The drop in gross profit margin was mainly attributable to the reduction of refund of import tax from 13% in 2006 to only 5% in 2007. The increase in stainless steel raw material prices also contributed to the drop in gross profit margin.

Total expenses increased from approximately HK\$9.2 million for the nine months ended 30 September 2006 to approximately HK\$14.0 million for the nine months ended 30 September 2007. The increase in total expenses of approximately HK\$4.8 million was mainly due to the doubling of the turnover for the nine months ended 30 September 2007 as compared to the same period in 2006.

Selling and distribution expenses increased by 140%, or HK\$1.88 million. Selling and distribution expenses increased as turnover increased. Moreover, the transportation costs for the new timber products were on average higher than stainless steel products in general.

Finance costs increased by approximately 130%, or approximately HK\$0.95 million. Finance cost increased significantly as the Group increased its borrowing to finance the new timber plant, and to finance higher working capital requirement due to increase in turnover. Moreover, average interest rate increased from 6.165% in the nine months to 30 September 2006 to 6.213% in the nine months to 30 September 2007.

Administrative expenses increased by around 27%, or approximately HK\$1.95 million, as the Group expanded into timber production in 2007. Administrative expenses did not increase in proportion to the turnover increase, as the core headquarter expenses remained at around the same level of those in 2006.

For the nine months ended 30 September 2007, the Group recorded a net profit attributable to equity holders of the Company of approximately HK\$17.1 million (for the nine months ended 30 September 2006: approximately HK\$10.7 million), representing an increase of approximately 59.3%. The increase in the Group's net profit was mainly due to higher turnover. Moreover, a tax refund of around RMB871,900 was granted to the Group as the Group reinvested its earning into a subsidiary in the PRC.

As at 30 September 2007, the Group had bank and cash balances of approximately HK\$18.6 million (as at 30 September 2006: approximately HK\$19.9 million) and short term bank borrowings of approximately HK\$60.7 million (as at 30 September 2006: approximately HK\$24.4 million) respectively.

Business Review

The Group's businesses continued to improve remarkably over that of the last year, as the Group returned to the normal growth trend after a year of investment in 2006 for production capacity expansion and new product range development.

Businesses for stainless steel products continued to be at a level significantly higher than that of last year with turnover of stainless steel products for the nine months ended 30 September 2007 increased by 69.4% over the same period of last year. Orders for stainless steel products have exceeded the current capacity and the Group is renting additional space (800 m²) for the production of the stainless steel pedal pin products.

Turnover for timber products increased six fold for the nine months ended 30 September 2007, as the full timber production line was in place in June this year. Gross margins for the timber products were still at a low level of around 5% as the Group was at the beginning of the learning curve.

The Group's gross margin was adversely affected when the Government reduced the import tax refund for the stainless steel products from an average of 13% to around 5%. Fortunately, the management was successful in securing the key customer to share a considerable portion of the additional costs through price increases.

The pressure for the appreciation of the Renminbi currency continued to increase the Group's general production costs during the quarter. However, the management was pleased to see a drop of the stainless steel price during the quarter, and had increased the Group's order for stainless steel materials, which is expected to lower the weighted average costs of the inventory and to contribute to a higher gross margin percentage in the last quarter of the financial year ended 31 December 2007.

Outlook

The Board is pleased to report a remarkable performance for the year, even though the management is still facing various challenges from the appreciation of the currency, the fluctuation in the prices of steel, and the reduction in tax refund, and the Board is optimistic that profitability of the Group will continue to improve. The management continues to search for various ways to improve profitability. For example, they are working on an agreement with the Group's customers for an adjustment in prices in our products when prices of stainless steel material fluctuate wildly.

The Group has reached a preliminary understanding with a neighbor to provide a production space of around 1500 m² in the proximity for the production of stainless steel in the early 2008.

In the new timber businesses, the Group is conducting feasibility study for various ways to reduce costs and increase profit margins for the business, such as increasing the utilization of the wood materials, and locking in the currency rate.

Demand for the Group's products continues to be at a high level, and the management is confident that the Group will finish the current financial year with satisfactory growth in both turnover and profit.

Looking further ahead, the Group expects that the growth in stainless steel business will continue as the Group secures more space for production, and that the new timber products will start to deliver significant return in the next financial year.

OTHER INFORMATION

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

The Directors who held office at 30 September 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 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

Ordinary shares of HK\$0.01 each

Name of Director	Personal interests	Family interests	Corporate interests	Total	Approximate
					percentage of the total issued capital of the Company
Mr. Yan Siu Wai	12,600,000	—	63,000,000	75,600,000	44.47%
				(Note 1)	
Mr. Leung Kwok Yin	15,120,000	—	35,280,000	50,400,000	29.65%
				(Note 2)	

Notes:

- 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 30 September 2007, 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		Exercise Period (Note)	Exercise price per share
	Shares	Date of Grant		
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 from the date of listing which had expired on 12 October 2006. Please see details set out in the paragraph headed “Share Options” below.

2. **Substantial Shareholders**

As at 30 September 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 to grant share options at its discretion before the listing of the shares (the

share “**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 2007 are as follows:

	Options held as at 1 January 2007	Options exercised during the three months ended 30 September 2007	Options held as at 30 September 2007	Exercise price (HK\$)
(A) Employees	2,688,000	—	2,688,000	0.80
	5,135,000	405,000	4,730,000	0.56
(B) Directors	10,752,000	—	10,752,000	0.80
	18,575,000	405,000	18,170,000	

Note:

Save as disclosed above, no options granted under the Pre-IPO Share Option Scheme and the Post-IPO Share Option Scheme are still outstanding.

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 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 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 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 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 2007 have 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 Practice

The Group is committed to ensuring high standards of corporate governance and business practices. The Group has complied throughout the nine months ended 30 September 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 GEM Listing Rules for the nine months ended 30 September 2007.

By order of the Board
Yan Siu Wai
Chairman

Hong Kong, 12 November 2007