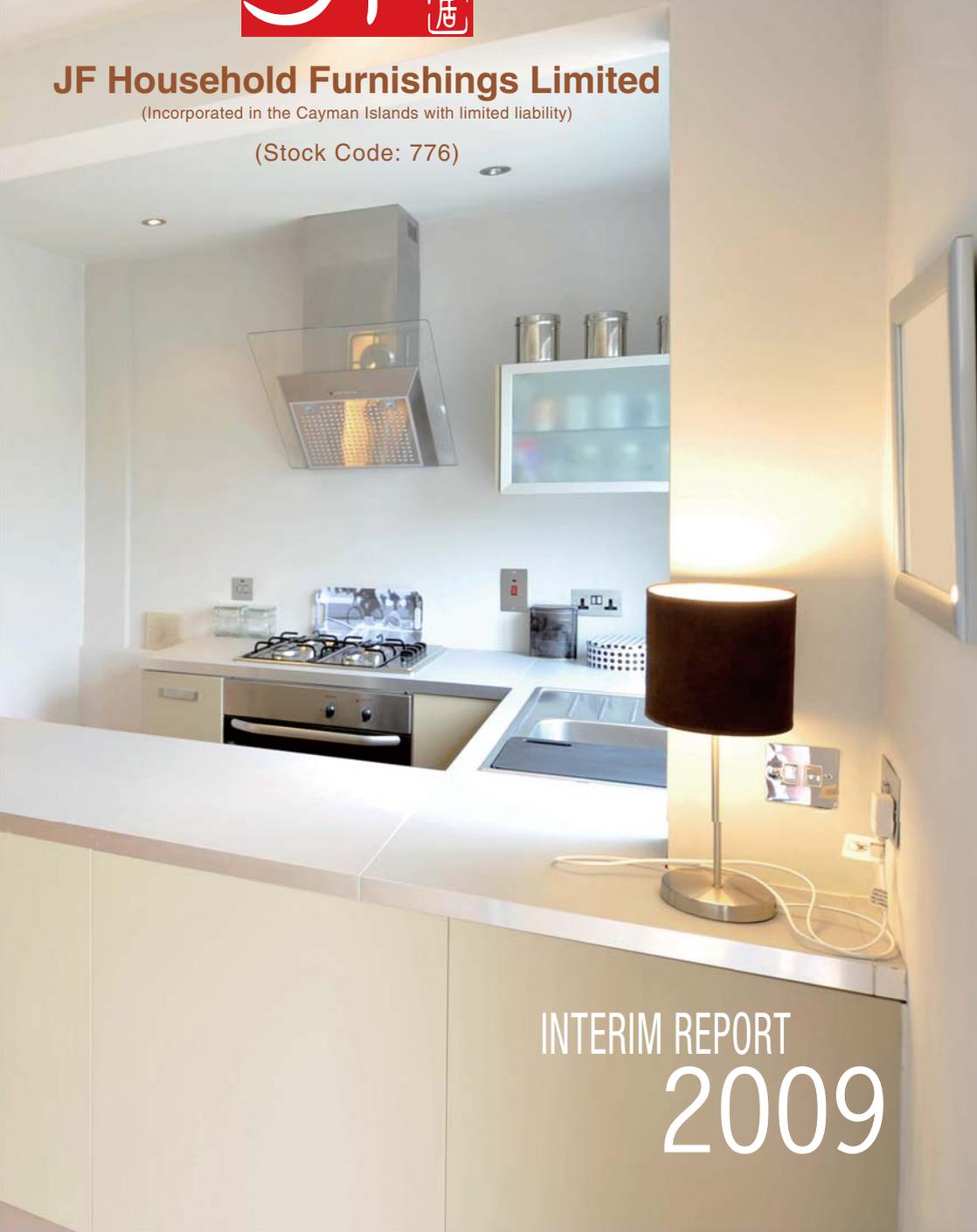




# JF Household Furnishings Limited

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 776)



INTERIM REPORT  
2009

As at the date of this report, the directors ("Directors") of the Company are:

*Executive Directors:*                      *Non-executive Director:*                      *Independent non-executive Directors:*

Mr. Yan Siu Wai

Mr. Kwan Kai Cheong

Mr. Yu Hon Wing Allan

Mr. Leung Kwok Yin

Mr. Garry Alides Willinge

Mr. Bao Jisheng

Mr. Chu Kwok Man

## HIGHLIGHTS

- Turnover of the Group for the six months ended 30 June 2009 amounted to approximately HK\$181.7 million (2008: HK\$177.0 million), representing an increase of approximately 2.7% as compared to the corresponding period of last year.
- Net profit attributable to equity holders of the Company for the six months ended 30 June 2009 amounted to approximately HK\$10.6 million (2008: approximately HK\$12.6 million), representing a drop of approximately 16.05% as compared to the corresponding period of last year.
- Earnings per share of the Group was approximately HK6.08 cents (2008: HK7.35 cents) for the six months ended 30 June 2009.

## CONDENSED CONSOLIDATED INCOME STATEMENT

FOR THE PERIOD ENDED 30 JUNE 2009

The board (the "Board") of Directors 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 2009, together with the unaudited comparative figures for the corresponding period in 2008 as follows:

		Unaudited Six months ended 30 June	
	Notes	2009 HK\$'000	2008 HK\$'000
Turnover	3	<b>181,744</b>	176,955
Cost of sales		<b>(155,799)</b>	(148,432)
Gross Profit		<b>25,945</b>	28,523
Other Revenue/Expenses	4	<b>1,137</b>	1,018
Selling and Distribution Costs		<b>(2,072)</b>	(1,991)
Administrative expenses		<b>(10,173)</b>	(8,274)
Profit from Operations		<b>14,837</b>	19,276
Finance costs		<b>(1,518)</b>	(2,577)
Profit before taxation	5	<b>13,319</b>	16,699
Taxation	6	<b>(2,736)</b>	(4,093)
Profit attributable to the Equity holders of the Company		<b>10,583</b>	12,606
Profit Distributions/Dividend	7	—	—
Basic earnings per share (cents)	8	<b>6.08</b>	7.35

## CONDENSED CONSOLIDATED BALANCE SHEET

		<b>Unaudited</b>	Audited
		<b>At 30 June</b>	At 31 December
		<b>2009</b>	2008
	Notes	<b>HK\$</b>	HK\$
<b>NON-CURRENT ASSETS</b>			
Property, plant and equipment	9	<b>66,201,507</b>	66,040,326
Land use right		<b>50,147,449</b>	50,700,545
Available-for-sale financial assets		<b>2,000,000</b>	2,000,000
		<b>118,348,956</b>	118,740,871
<b>CURRENT ASSETS</b>			
Inventories		<b>65,221,667</b>	80,695,507
Trade receivables	10	<b>42,077,928</b>	46,161,939
Deposits and other receivables and prepayments		<b>8,670,174</b>	3,743,696
Due from related companies	11	<b>267,178</b>	–
Pledged bank deposit		<b>1,065,983</b>	1,064,958
Bank and cash balances		<b>18,400,312</b>	21,460,400
		<b>135,703,242</b>	153,126,500
<b>TOTAL ASSETS</b>		<b>254,052,198</b>	271,867,371

	Notes	Unaudited At 30 June 2009 HK\$	Audited At 31 December 2008 HK\$
<b>CURRENT LIABILITIES</b>			
Trade Payables	12	<b>34,565,030</b>	30,854,456
Other Payables and accruals		<b>7,021,915</b>	9,723,559
Current tax liabilities		<b>1,602,325</b>	7,492,310
Bank borrowings		<b>64,738,411</b>	78,357,969
		<b>107,927,681</b>	126,428,294
<b>NET CURRENT ASSETS</b>			
		<b>27,775,561</b>	26,698,206
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>			
		<b>146,124,517</b>	145,439,077
<b>NON-CURRENT LIABILITIES</b>			
Bank borrowings		<b>2,078,979</b>	2,541,579
Deferred Tax Liabilities		<b>454,132</b>	1,021,798
		<b>2,533,111</b>	3,563,377
<b>NET ASSETS</b>			
		<b>143,591,406</b>	141,875,700
<b>CAPITAL AND RESERVES</b>			
Share capital		<b>1,740,450</b>	1,739,950
Reserves		<b>141,850,956</b>	140,135,750
<b>TOTAL EQUITY</b>			
		<b>143,591,406</b>	141,875,700

## CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	<b>Unaudited For the six months ended 30 June 2009 HK\$'000</b>	Unaudited For the six months ended 30 June 2008 HK\$'000
<b>TOTAL EQUITY</b>		
Balance at beginning of period	<b>141,876</b>	116,331
Profit for the period	<b>10,583</b>	12,606
Issuance of new shares	<b>28</b>	1,584
Foreign currency translation reserve	<b>(194)</b>	9,676
Dividend paid on shares	<b>(8,702)</b>	(8,617)
Balance at end of period	<b>143,591</b>	131,580

## CONDENSED CONSOLIDATED CASH FLOW STATEMENT

	<b>Unaudited For the six months ended 30 June 2009 HK\$'000</b>	Unaudited For the six months ended 30 June 2008 HK\$'000
Net cash generated from operating activities	<b>24,562</b>	8,942
Net cash used in investing activities	<b>(3,225)</b>	(25,618)
Net cash generated from financing activities	<b>(24,269)</b>	14,047
Net increase (decrease) in cash & cash equivalents	<b>(2,932)</b>	(2,629)
Cash and cash equivalents at 1 January	<b>15,067</b>	15,003
Effect of foreign exchange rate changes	<b>415</b>	8,618
Cash and cash equivalents at 30 June	<b>12,550</b>	20,992

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

## 1. Company reorganisation

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 were previously listed on the Growth Enterprise Market (the "GEM") of the Stock Exchange of Hong Kong Limited (the "Stock Exchange") and the listing of which were subsequently transferred to the Main Board of the Stock Exchange on 10 September 2008.

## 2. Basis of preparation and principal accounting policies

The unaudited interim 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 Appendix 16 of the Rules Governing the Listing of Securities on the Stock Exchange ("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 2009 are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2008.

## 3. Turnover

The Group is principally engaged in the 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 For the six months ended 30 June	
	2009 HK\$'000	2008 HK\$'000
Stainless steel products	114,976	122,054
Timber products	66,768	54,901
Total	181,744	176,955

#### 4. Other Revenue

Other revenue for the six months ended 30 June 2009 amounted to approximately HK\$1.14 million (2008: approximately HK\$1.020 million). The Group received during the six months ended 30 June 2009 a government grant of HK\$852,000, while in 2008, HK\$661,000 was recorded as a revaluation gain on forward exchange contracts.

#### 5. Profit Before Taxation

	Unaudited For the six months ended 30 June	
	2009	2008
	HK\$'000	HK\$'000
Profit before taxation has been arrived at after charging/(crediting):		
Exchange Losses (Gains)	1,540	(30)
Depreciation of property, plant and equipment	2,774	2,460

#### 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 period.

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, 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 each of JF Metal and JF Furniture only commenced its tax holiday in 2008.

## 7. Dividends

The Directors do not recommend the payment of dividend for the six months ended 30 June 2009. (2008: 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 2009 of approximately HK\$10.6 million (2008: approximately HK\$12.6 million) and weighted average of 174,010,470 ordinary shares of the Company during the six months ended 30 June 2009, (2008: 171,530,110 ordinary shares).

## 9. Property, plant and equipment

	Buildings HKD	Machinery HKD	Office Equipment HKD	Motor Vehicles HKD	Construction in progress HKD	Total HKD
<b>Cost</b>						
At 1 January 2009	39,497,022	26,916,457	2,818,103	1,783,724	6,631,077	77,646,383
Additions	-	1,575,653	67,816	-	1,334,139	2,977,608
Transfers	-	5,419,796	-	-	(5,419,796)	-
Exchange Adjustment	(25,447)	(17,018)	(1,810)	(1,150)	(4,630)	(50,055)
At 30 June 2009	39,471,575	33,894,888	2,884,109	1,782,574	2,540,790	80,573,936
<b>Accumulated depreciation</b>						
At 1 January 2009	4,207,765	5,101,138	1,250,593	1,046,561	-	11,606,057
Charge for the period	888,059	1,338,140	432,460	114,860	-	2,773,519
Exchange Adjustment	(2,710)	(2,958)	(804)	(675)	-	(7,147)
At 30 June 2009	5,093,114	6,436,320	1,682,249	1,160,746	-	14,372,429
<b>Net book value</b>						
At 30 June 2009	34,378,461	27,458,568	1,201,860	621,828	2,540,790	66,201,507
At 31 December 2008	35,289,257	21,815,319	1,567,510	737,163	6,631,077	66,040,326

## 10. 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:

	<b>At 30 June 2009 HK\$'000 (Unaudited)</b>	At 31 December 2008 HK\$'000 (Audited)
0 – 30 days	<b>38,464</b>	45,913
31 – 60 days	<b>3,614</b>	124
61 – 90 days	–	–
> 90 days	–	125
	<b>42,078</b>	46,162

## 11. 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.

## 12. Trade payables

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

	<b>At 30 June 2009 HK\$'000 (Unaudited)</b>	At 31 December 2008 HK\$'000 (Audited)
0 – 30 days	<b>26,320</b>	22,737
31 – 60 days	<b>6,209</b>	6,437
61 – 90 days	<b>868</b>	138
> 90 days	<b>1,168</b>	1,542
	<b>34,565</b>	30,854

### 13. 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 2009 is presented below:

	<b>Stainless Steel Products</b>	<b>Timber Products</b>	<b>Consolidated</b>
	HK\$'000	HK\$'000	HK\$'000
Turnover	114,976	66,768	181,744
Segmented Result	15,678	1,835	17,513
Unallocated Corporate Expenses			(2,676)
Finance costs			(1,518)
Profit before taxation			13,319
Taxation			(2,736)
Net Profit			10,583

### 14. Liquidity, Financial Resources, Funding and Treasury Policy

As at 30 June 2009, the Group had bank and cash balances of approximately HK\$18.4 million (as at 31 December 2008: approximately HK\$21.5 million) and short term bank borrowings of approximately HK\$64.7 million (as at 31 December 2008: approximately HK\$78.4 million) respectively. Net current assets of the Group was approximately HK\$27.8 million, a slightly higher level than that at 31 December 2008, which was approximately HK\$26.7 million. Non-current assets stay around the same level of approximately HK\$118.7 million at 31 December 2008 to approximately HK\$118.4 million at 30 June 2009.

As at 30 June 2009, the Group had current liabilities of approximately HK\$107.9 million, lower than that at 31 December 2008, which was approximately HK\$126.4 million, mainly due to the Group's effort to improve liquidity through reducing inventory level.

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

### 15. Gearing Ratio

As at 30 June 2009, the Group's gearing ratio, which was derived from the total borrowings to total assets, dropped to 26.3% from 29.8%, at 31 December 2008, as the Group had reduced its borrowings to improve its liquidity level.

## **16. Future Plans for Material Investments**

The Company had no material acquisition or capital expenditure plan for the six months ended 30 June 2009.

## **17. Material Acquisitions and Disposals**

The Group did not have any material acquisitions and disposals for the six months ended 30 June 2009.

## **18. Contingent Liabilities**

As at 30 June 2009, the Group had no contingent liabilities.

## **19. Foreign Exchange Exposure**

All transactions of the Group are denominated in Renminbi, Hong Kong Dollars or US Dollars.

## **20. Employees and Remuneration Policy**

As at 30 June 2009, the Group employed approximately 770 staff in the PRC and Hong Kong. The Group's remuneration to employees, including Directors' emoluments, amounted to HK\$13 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.

## **21. 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.

## **22. Subsequent Events**

On 4 August 2009, the Company granted 1,000,000 share options to subscribe for ordinary shares of HK\$0.01 each in the share capital of the Company at an exercise price of HK\$0.90 per share to Mr. Cheung Wai Tak, the company secretary and authorised representative of the Company, pursuant to the share option scheme adopted by the Company on 26 November 2008. Further details of the grant have been disclosed in the announcement of the Company dated 4 August 2009.

On 9 September 2009, the Company completed the placing ("Placing") of 34,809,000 ordinary shares of HK\$0.01 each in the share capital of the Company ("Placing Shares") to not less than six placees, who and whose ultimate beneficial owners were independent third parties, at the placing price of HK\$0.88 per Placing Share. Further details of the Placing have been disclosed in the announcement of the Company dated 9 September 2009.

## MANAGEMENT DISCUSSION AND ANALYSIS

### Financial review

The Group's turnover for the six months ended 30 June 2009 amounted to approximately HK\$181.7 million, representing an increase of approximately 2.7% over the same period of 2008. The increase was mainly due to the increase in timber business turnover as the timber business continued to expand.

Turnover in the stainless steel products for the six months ended 30 June 2009 was approximately HK\$115.0 million, at a slightly lower level than that of approximately HK\$122.1 million for the same period in 2008, mainly because of average drop of prices as a result of the worldwide economic slowdown. Overall quantity of stainless steel products production for this period had actually increased from the level of 2008.

Timber business turnover for the six months ended 30 June 2009 amounted to approximately HK\$66.8 million, representing an increase of approximately 21.6% over the approximately HK\$54.9 million achieved during the same period of 2008, as the timber division is still on its growing path despite worldwide economic slowdown.

Overall gross profit margin of the Group for the six months ended 30 June 2009 dropped to about approximately 14.3% from approximately 16.1% for the six months ended 30 June 2008.

Gross profit margin for the stainless steel division improved slightly from 18.1% for the six months ended 30 June 2008 to 18.5% for the six months ended 30 June 2009. General price reductions in stainless steel products were offset by strong effort in cost control, both in labour and overheads, and cheaper material costs.

Gross profit margin for the timber division dropped significantly from approximately 11.6% for the six months ended 30 June 2008 to approximately 7% for the same period in 2009 as the Group's key customer raises its environmental standard requirement for wood board materials to a higher level (from E-1 to one step above E-1), resulting in a significant amount of residual wood material that cannot be reused.

Total expenses increased by approximately HK\$0.92 million from approximately HK\$12.84 million for the six months ended 30 June 2008 to approximately HK\$13.76 million for the six months ended 30 June 2009, representing an increase of approximately 7.2%. The increase of expenses was mainly due to the expiration of the hedging contracts which resulted in about HK\$1.02 million loss.

Tax expenses reduced from approximately HK\$4.09 million for the six months ended 30 June 2008 to approximately HK\$ 2.74 million for the six months ended 30 June 2009, as higher portion of profit is generated through vehicles with lower income tax rates.

As at 30 June 2009, the Group had bank and cash balances of approximately HK\$18.4 million (as at 31 December 2008: approximately HK\$21.5 million) and short terms bank borrowings of approximately HK\$64.7 million (as at 31 December 2008: approximately HK\$78.4 million) respectively.

## **Business Review**

Worldwide consumer markets, especially in Europe and North America, shrank considerably following the collapse in global economic growth since the last quarter of 2008. The operating environment continued to be very challenging for most export manufacturers in the PRC, despite the relaxation of monetary policy and supportive measures introduced by the PRC government, such as increasing the rates of the export tax rebate.

For the first half of 2009, the Group was able to manage a slight growth in revenue of about 2.7% despite the worldwide consumer cut back, as the Group has developed a strong and stable relationship with our key customer.

The downturn effect on the stainless steel division is more apparent, as the turnover has shrank by 5.8%. The Group's management has cut both the overtime and the staff level in order to control labour costs. Moreover, the Group has also subcontracted certain non-essential processes to control the size of the production plant.

Operations in the timber division continued to improve, in both the technical level and capacity level, with turnover for the half year ended 30 June 2009 increasing by approximately 21.6% over the same period in 2008. The prototypes of the new kitchen cabinet series have been well tested and approved for deliveries and are ready to be launched in the second half of 2009.

Profit margin was also under pressure as the Group had to lower the selling prices to maintain the selling volume.

For the stainless steel products, fortunately, prices for raw materials declined in the first half of 2009 as a result of worldwide drop of commodity demands and the Group was able to maintain the gross margin level.

For the timber business, the Group's key customer raised its environmental standard requirement for wood board materials to a higher level from E-1. Hence, the Group had to sell off the residual materials as they cannot be reused. The management is confident that the impact is one-off and the gross margin for this timber division will improve significantly in the future.

The renminbi currency has remained quite stable since the economic crisis started in the last quarter of 2008. The Group has closed all hedging contracts during the period, and will avoid using financial hedging instruments unless a significant trend developed.

## **Outlook**

The once in a century economic downturn has hurt many industrial players and many factories have closed down. However, the management is confident that the Group will become more competitive as the Group has a strong and stable relationship with the key customer and the Group has prepared a strong platform for growth in short to mid term.

The Group started as a stainless steel manufacturer when it was first listed on the GEM Board in 2005 with only 10,000 sq.m. of plant area, and diversified into the production of wood furniture in 2007. Today, the Group has more than 45,000 sq.m. of manufacturing area, with a new 2,789 sq.m. of warehouse to be completed in the second half of 2009.

The management is pleased to report to shareholders that the negotiation for a new environmental friendly and low cost products, the "honey comb" series, has come to a fruitful conclusion, reaching agreement with the key customer on the implementation strategy, including feasibility study, new products development, and the selection of imported equipment. The land purchased in 2008 has an area of around 40,000 sq.m. for building a plant of around 50,000 sq.m. for this new series, capable of doubling the production capacity of the Group.

Deliveries of the new kitchen cabinet began in July 2009, which will further enhance the performance of the timber division. It is reasonable to expect the timber division will complete the year with a significant growth in sales.

Stainless steel division continued to be under pressure in price and in growth of business. The management has sped up the development of new products, and has planned for more than 30 new products to be developed and tested in the second half of 2009. Cost savings in production will continue with improvement in production lines through simplification and automation.

With the global economic downturn beginning to stabilize, the management believes that the Group is in a strong position to rebound. The management is confident that, given gradual improvement in consumer sentiment, the Group's performance will remain stable this year and return to growth in the coming years.

## OTHER INFORMATION

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

The Directors who held office at 30 June 2009 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 the Model Code for Securities Transactions by Directors of Listed Companies contained in the 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			Total
	Personal interests	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 Jisheng	1,000,000	–	22,680,000	23,680,000 (Note 3)

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 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 2009, 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
Mr. Yan Siu Wai	4,435,200	8 September 2005	13 April 2006 to 12 October 2010	HK\$0.80
Mr. Leung Kwok Yin	2,956,800	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 2009, 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**”). By an ordinary resolution passed on 26 November 2008, the then shareholders of the Company approved (i) the adoption of the new share option scheme (“**New Share Option Scheme**”), and (ii) the termination of the Pre-IPO Share Option Scheme and the Post-IPO Scheme. Pursuant to the terms of the Pre-IPO Share Option Scheme, the share options previously granted under the Pre-IPO Share Option Scheme but not yet exercised will remain valid and exercisable in accordance with the provisions of the Pre-IPO Share Option Scheme and the terms of issue of such options. 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 2009 are as follows:

	Options held as at 1 January 2009	Options held as at 30 June 2009	Exercise price (HK\$)	Options exercised during the six months ended 30 June 2009
(A) <b>Employees</b>	2,688,000	2,688,000	0.80	–
	1,725,000	1,675,000	0.56	50,000
(B) <b>Directors</b>	9,752,000	9,752,000	0.80	–
<b>Total</b>	<u>14,165,000</u>	<u>14,115,000</u>		<u>50,000</u>

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 2009.
2. On 4 August 2009, a total of 1,000,000 share options were granted under the New Share Option Scheme to Mr. Cheung Wai Tak, at an exercise price of HK\$0.90 per share.

#### **4. Competing Interests**

None of the Directors, management shareholders or their respective associates (as defined in the 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 3.21 to 3.23 of the Listing Rules. The primary duties of the audit committee are to review and supervise the financial reporting process and internal control system of the Group.

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 of 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 2009 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 six months ended 30 June 2009. 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 2009 with the code provisions set out in the Code on Corporate Governance Practices contained in Appendix 14 of the 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 Appendix 10 of the Listing Rules. Having made specific enquiry, all Directors have fully complied with the required standard set out in the Listing Rules for the six months ended 30 June 2009.

By order of the Board  
**JF Household Furnishings Limited**  
**Yan Siu Wai**  
*Chairman*

Hong Kong, 14 September 2009