



# JF Household Furnishings Limited

(Incorporated in the Cayman Islands with limited liability)

Stock Code : 776

2010  
Interim Report



As at the date of this report, the Directors 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 2010 amounted to approximately HK\$198.0 million (2009: HK\$181.7 million), representing an increase of approximately 8.9% 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 2010 amounted to approximately HK\$10.9 million (2009: approximately HK\$10.6 million), representing a slight increase of approximately 3.0% as compared to the corresponding period of last year.
- Earnings per share of the Group was approximately HK5.21 cents (2009: HK6.08 cents) for the six months ended 30 June 2010.

## CONDENSED CONSOLIDATED INCOME STATEMENT

FOR THE PERIOD ENDED 30 JUNE 2010

The board (the "Board") of directors (the "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 2010, together with the unaudited comparative figures for the corresponding period in 2009 as follows:

		<b>Unaudited</b>	
		<b>Six months ended 30 June</b>	
		<b>2010</b>	2009
		<b>HK\$'000</b>	HK\$'000
	Notes		
Turnover	3	<b>197,979</b>	181,744
Cost of sales		<b>(170,364)</b>	(155,799)
		<hr/>	<hr/>
Gross profit		<b>27,615</b>	25,945
Other revenue/expenses	4	<b>541</b>	1,137
Selling and distribution costs		<b>(1,090)</b>	(2,072)
Administrative expenses		<b>(9,090)</b>	(10,173)
		<hr/>	<hr/>
Profit from operations		<b>17,976</b>	14,837
Finance costs		<b>(1,352)</b>	(1,518)
		<hr/>	<hr/>
Profit before taxation	5	<b>16,624</b>	13,319
Taxation	6	<b>(5,725)</b>	(2,736)
		<hr/>	<hr/>
Profit attributable to the equity holders of the Company		<b>10,899</b>	10,583
Profit distributions/Dividend	7	<b>—</b>	—
		<hr/>	<hr/>
Basic earnings per share (cents)	8	<b>5.21</b>	6.08
		<hr/>	<hr/>

## CONDENSED CONSOLIDATED BALANCE SHEET

		<b>Unaudited</b>	Audited
		<b>At 30 June</b>	At 31 December
	Notes	<b>2010</b>	2009
		<b>HK\$</b>	HK\$
<b>NON-CURRENT ASSETS</b>			
Property, plant and equipment	9	<b>83,815,342</b>	67,083,943
Land use right		<b>51,914,113</b>	50,976,388
Insurance prepayment		<b>4,553,510</b>	–
Available-for-sale financial assets		<b>2,000,000</b>	2,000,000
		<b>142,282,965</b>	120,060,331
<b>CURRENT ASSETS</b>			
Inventories		<b>120,165,247</b>	85,713,658
Trade receivables	10	<b>47,237,708</b>	33,030,243
Deposits and other receivables and prepayments		<b>23,279,150</b>	9,172,272
Due from related companies	11	<b>510,494</b>	–
Pledged bank deposit		<b>2,215,709</b>	2,201,986
Bank and cash balances		<b>29,258,419</b>	29,613,856
		<b>222,666,727</b>	159,732,015
<b>TOTAL ASSETS</b>		<b>364,949,692</b>	279,792,346

		<b>Unaudited</b>	Audited
		<b>At 30 June</b>	At 31 December
		<b>2010</b>	2009
	Notes	<b>HK\$</b>	<b>HK\$</b>
<b>CURRENT LIABILITIES</b>			
Trade Payables	12	<b>47,545,875</b>	29,152,081
Other Payables and accruals		<b>8,284,887</b>	9,155,889
Current tax liabilities		<b>4,215,405</b>	4,837,895
Bank borrowings		<b>112,093,734</b>	47,655,659
		<b>172,139,901</b>	90,801,524
<b>NET CURRENT ASSETS</b>			
		<b>50,526,826</b>	68,930,491
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>			
		<b>192,809,791</b>	188,990,822
<b>NON-CURRENT LIABILITIES</b>			
Bank borrowings		<b>3,991,679</b>	1,616,379
Deferred Tax Liabilities		<b>550,541</b>	2,673,792
		<b>4,542,220</b>	4,290,171
<b>NET ASSETS</b>			
		<b>188,267,571</b>	184,700,651
<b>CAPITAL AND RESERVES</b>			
Share capital		<b>2,102,490</b>	2,088,540
Reserves		<b>186,165,081</b>	182,612,111
<b>TOTAL EQUITY</b>			
		<b>188,267,571</b>	184,700,651

## CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	<b>Unaudited For the six months ended 30 June 2010 HK\$'000</b>	Unaudited For the six months ended 30 June 2009 HK\$'000
<b>TOTAL EQUITY</b>		
Balance at beginning of period	<b>184,701</b>	141,876
Profit for the period	<b>10,899</b>	10,583
Issuance of new shares	<b>781</b>	28
Foreign currency translation reserve	<b>2,387</b>	(194)
Dividend paid on shares	<b>(10,501)</b>	(8,702)
Balance at end of period	<b>188,267</b>	143,591

## CONDENSED CONSOLIDATED CASH FLOW STATEMENT

	<b>Unaudited For the six months ended 30 June 2010 HK\$'000</b>	Unaudited For the six months ended 30 June 2009 HK\$'000
Net cash generated from operating activities	<b>(32,243)</b>	24,562
Net cash used in investing activities	<b>(23,987)</b>	(3,225)
Net cash generated from financing activities	<b>55,741</b>	(24,269)
Net increase (decrease) in cash & cash equivalents	<b>(489)</b>	(2,932)
Cash and cash equivalents at 1 January	<b>23,335</b>	15,067
Effect of foreign exchange rate changes	<b>1,080</b>	415
Cash and cash equivalents at 30 June	<b>23,926</b>	12,550

# 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 2010 are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2009.

## 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	
	2010 HK\$'000	2009 HK\$'000
Stainless steel products	142,915	114,976
Timber products	55,064	66,768
Total	<u>197,979</u>	<u>181,744</u>

#### 4. Other Revenue

Other revenue for the six months ended 30 June 2010 amounted to approximately HK\$0.54 million (2009: approximately HK\$1.14 million). The Group received during the six months ended 30 June 2010 a government grant of HK\$309,000, while HK\$852,000 was recorded in 2009.

#### 5. Profit Before Taxation

	Unaudited Six months ended 30 June	
	2010 HK\$'000	2009 HK\$'000
Profit before taxation has been arrived at after (crediting)/charging:		
Exchange (Gains) Losses	(130)	1,540
Depreciation of property, plant and equipment	2,960	2,774

#### 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. Since the two-year tax exemption period for both JF Metal and JF Furniture had expired in 2009, both JF Metal and JF Furniture are subject to the first year of the 50% tax reduction period.

#### 7. Dividends

The Directors do not recommend the payment of dividend for the six months ended 30 June 2010 (2009: 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 2010 of approximately HK\$10.9 million (2009: approximately HK\$10.6 million) and weighted average of 209,371,100 ordinary shares of the Company during the six months ended 30 June 2010 (2009: 174,010,470 ordinary shares).

## 9. Property, plant and equipment

	<b>Buildings</b>	<b>Machinery</b>	<b>Office</b>	<b>Motor</b>	<b>Construction</b>	<b>Total</b>
	HKD	HKD	HKD	HKD	HKD	HKD
<b>Cost</b>						
At 1 January 2010	42,500,435	34,759,943	3,161,926	1,760,098	2,144,036	84,326,438
Additions	–	4,018,002	67,194	290,544	14,549,413	18,925,153
Transfers	–	1,433,871	–	–	(1,433,871)	–
Write Off	–	(2,877)	–	–	–	(2,877)
Exchange Adjustment	464,659	386,412	34,478	19,244	23,442	928,235
	<u>42,965,094</u>	<u>40,595,351</u>	<u>3,263,598</u>	<u>2,069,886</u>	<u>15,283,020</u>	<u>104,176,949</u>
At 30 June 2010	<u>42,965,094</u>	<u>40,595,351</u>	<u>3,263,598</u>	<u>2,069,886</u>	<u>15,283,020</u>	<u>104,176,949</u>
<b>Accumulated depreciation</b>						
At 1 January 2010	5,987,498	7,978,809	2,040,308	1,235,880	–	17,242,495
Charge for the period	855,883	1,673,435	335,040	94,952	–	2,959,310
Write Off	–	(324)	–	–	–	(324)
Exchange Adjustment	36,407	87,956	22,250	13,513	–	160,126
	<u>6,879,788</u>	<u>9,739,876</u>	<u>2,397,598</u>	<u>1,344,345</u>	<u>–</u>	<u>20,361,607</u>
At 30 June 2010	<u>6,879,788</u>	<u>9,739,876</u>	<u>2,397,598</u>	<u>1,344,345</u>	<u>–</u>	<u>20,361,607</u>
<b>Net book value</b>						
At 30 June 2010	<u>36,085,306</u>	<u>30,855,475</u>	<u>866,000</u>	<u>725,541</u>	<u>15,283,020</u>	<u>83,815,342</u>
At 31 December 2009	<u>36,512,937</u>	<u>26,781,134</u>	<u>1,121,618</u>	<u>524,218</u>	<u>2,144,036</u>	<u>67,083,943</u>

## 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:

	At 30 June 2010 HK\$'000 (Unaudited)	At 31 December 2009 HK\$'000 (Audited)
0-30 days	40,525	32,467
31-60 days	6,705	563
61-90 days	8	-
> 90 days	-	-
	<hr/> 47,238	<hr/> 33,030

## 11. Due from related companies

The amounts due from related companies represent utility expenses due from Yuyao Jiefeng Air Conditioning Equipment Co., Ltd incurred for 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:

	At 30 June 2010 HK\$'000 (Unaudited)	At 31 December 2009 HK\$'000 (Audited)
0-30 days	29,905	24,508
31-60 days	15,550	4,311
61-90 days	502	12
> 90 days	1,589	321
	<hr/> 47,546	<hr/> 29,152

### 13. Segment Information

Information about reportable segment revenue, results and assets:

	<b>Stainless steel furnishings</b>	<b>Wooden furnishings</b>	<b>Total</b>
	HK\$'000	HK\$'000	HK\$'000
Six month ended 30 June 2010			
Revenue from external customers	142,915	55,064	197,979
Intersegment revenue	29	–	29
Segment results	13,528	1,092	14,620
Interest revenue	15	21	36
Interest expense	797	446	1,243
Depreciation and amortisation	1,587	1,923	3,510
Income tax expenses	4,904	146	5,050
Additions to segment on-current assets	1,600	17,325	18,925
As at 30 June 2010			
Segment assets	167,791	187,530	355,321

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

As at 30 June 2010, the Group had bank and cash balances of approximately HK\$29.3 million (as at 31 December 2009: approximately HK\$29.6 million) and short term bank borrowings of approximately HK\$112.1 million (as at 31 December 2009: approximately HK\$47.7 million) respectively. Net current assets of the Group was approximately HK\$50.5 million, a level lower than that at 31 December 2009, which was approximately HK\$68.9 million. Non-current assets increased to approximately HK\$142 million as at 30 June 2010 as compared to that of HK\$120 million as at 31 December 2009.

As at 30 June 2010, the Group had current liabilities of approximately HK\$172.1 million as compared to approximately HK\$90.8 million as at 31 December 2009. The increase in current liabilities was mainly due to the investment in the construction of new production facilities for massive production of "Board on Frame" products and higher inventory level of stainless steel.

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 2010, the Group's gearing ratio, which was derived from the total borrowings to total assets, increased to 31.8% from that of 17.6% as at 31 December 2009, as the Group had increased its borrowings to finance the acquisition of machineries ("**Acquisition of Machineries**") and the construction of production facilities ("**BOF Production Facilities**") for massive production of "Board on Frame" products. Details of the BOF Production Facilities had been announced in an announcement of the Company dated 19 May 2010 ("**Announcement**").

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

Apart from investment in the BOF Production Facilities as disclosed in the Announcement, the Company had no other material acquisition or capital expenditure plan for the six months ended 30 June 2010.

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

Apart from the Acquisition of Machineries as disclosed in the Announcement, the Group did not have any other material acquisitions and disposals for the six months ended 30 June 2010.

## **18. Contingent Liabilities**

As at 30 June 2010, 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 2010, the Group employed approximately 1,019 staff in the PRC and Hong Kong. The Group's remuneration to employees, including Directors' emoluments, amounted to HK\$16.4 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.

# MANAGEMENT DISCUSSION AND ANALYSIS

## Financial review

The Group's turnover for the six months ended 30 June 2010 amounted to approximately HK\$198 million, representing an increase of approximately 8.9% over the same period of 2009. The increase was mainly due to the increase in stainless steel business turnover as the businesses in the stainless steel division returned to a growing path.

Turnover in the stainless steel business for the six months ended 30 June 2010 was approximately HK\$142.9 million, at a 24.3% higher level than that of approximately HK\$115 million for the same period in 2009, mainly because of the gradual recovery of the worldwide economies from the financial shocks.

Timber business turnover for the six months ended 30 June 2010 amounted to approximately HK\$55.1 million, representing a drop of approximately 17.5% from that of approximately HK\$66.8 million for the same period of 2009. Business slowed down from 2009 onwards as a lot of resources were dedicated to the trial run for new "Board on Frame" products, and also because the key customer stopped ordering a few existing products.

Overall gross profit margin of the Group for the six months ended 30 June 2010 dropped slightly to approximately 13.9% from approximately 14.3% for the six months ended 30 June 2009, as the Group faced both reduction in selling prices and the increase of raw material costs.

Gross profit margin for the stainless steel division dropped from approximately 18.5% for the six months ended 30 June 2009 to approximately 16.3% for the six months ended 30 June 2010. General price reductions in stainless steel products were requested by the key customer because of weak consumer spending atmosphere and because of the shift of payment obligation on the land transportation costs for containers from the Group to the key customer starting from 2010.

Gross profit margin for the timber division improve slightly from approximately 7.0% for the six months ended 30 June 2009 to approximately 7.9% for the same period in 2010, as operations continued to improve in the division.

Total expenses dropped by approximately HK\$2.23 million from approximately HK\$13.76 million for the six months ended 30 June 2009 to approximately HK\$11.53 million for the six months ended 30 June 2010. The drop in expenses was mainly due to the drop of approximately HK\$1.19 million transportation expenses in relation to land transportation costs for containers, and the reduction of approximately HK\$ 1.02 million loss related to the foreign exchange hedging contracts expired in 2009. No hedging contract outstanding for the period ended 30 June 2010.

Tax expenses increased from approximately HK\$2.74 million for the six months ended 30 June 2009 to approximately HK\$ 5.72 million for the six months ended 30 June 2010, as the two-year tax exemption period for both JF Metal and JF Furniture, two subsidiaries for the Group have expired in 2009, and both JF Metal and JF Furniture are now subject to PRC enterprise income tax at a 50% reduction. Moreover, about HK\$1.02 million tax expenses was incurred due to a one time gain from the transfer of land title from “JF Ningbo” to “JF Furniture”.

As at 30 June 2010, the Group had bank and cash balances of approximately HK\$29.3 million (as at 31 December 2009: approximately HK\$29.6 million) and short term bank borrowings of approximately HK\$112.1 million (as at 31 December 2009: approximately HK\$47.7 million) respectively. The increase in bank borrowings were mainly due to the investment for the setting up of the “Board on Frame” products operation, with approximately HK\$30 million for the Acquisition of Machineries and approximately HK\$17 million for the construction of the BOF Production Facilities as disclosed in the Announcement. In addition, the Group had increased the level of stainless steel inventory as the management took advantage of the cheap prices offered when prices of stainless steel materials fluctuate widely during the period under review.

### **Business Review**

Economies in the U.S. and Western European countries started to stabilize early this year, and businesses for export industries in the PRC slowly returned to normal. For the first half of 2010, the Group’s turnover increased by about 8.9%.

Businesses for the stainless steel division delivered a healthy growth, but profit margin during the period under review dropped due to price reductions requested by the key customer.

Businesses for the timber division continued to be promising, with the kitchen cabinet series becoming one of the major products in the division, and the trial production of the new low-cost environmental friendly “Board on Frame” product series commenced with periodic delivery made to the key customer during the period under review. However, prices for timber raw materials increase significantly due to the heavy rainfall in the PRC which reduced the harvest of timber raw materials. Turnover for the timber division also dropped due to the realignment of business of the key customer.

Overall shortage of labour remain a challenge for manufacturers in the PRC during the period, as the Group’s management continued to face rising demands from labour.

## Outlook

Although the U.S. and Western European countries has successfully controlled a severe economic downturn, economic outlook in most western countries continued to be uncertain, and consumer markets worldwide remained weak. The operating environment for export oriented manufacturers continued to be unfavourable as the PRC Government faced increasing pressure from the U.S. and European governments to turn the trade imbalance around.

The PRC Government has relax the currency band, and Renminbi has started to appreciate in 2010. The Management is expecting higher costs as the Renminbi is likely to appreciate against the US dollar.

However, the Group's management is confident that the Group will ride out from the difficulties as the Group had built a good foundation for growth in expanding its capacity for a much broader product range and the Group have been investing and maintaining a strong and stable relationship with its key customer.

The Group has expanded its production plant from approximately 10,000 sq.m. in 2005 to approximately 45,000 sq.m, and has started to construct the BOF Production Facilities with estimated gross floor area of approximately 51,815 sq.m. as disclosed in the Announcement, which is expected to be completed by the end of year 2010.

Trial production for the new "Board on Frame" product series has been successful, and the Group has begun regular deliveries to the key customer during the period under review. It is expected that normal production will begin by early 2011 when the construction of BOF Production Facilities is completed and the machineries are delivered and commissioned.

With the substantial investment in new machineries and new production team for the new "Board on Frame" product series, it is expected the Group's performance will be affected until the production of "Board on Frame" products achieved economies of scale, as the Group's administrative and financial expenses will increase substantially at the early days of the starting up of the lines for massive production.

Notwithstanding all the challenges and difficulties, the Group's management is confident that the Group will deliver a stable result for year 2010, and a promising return in the future 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 2010 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:

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 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 2010, 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	Exercise		price per share (Note)
		Date of Grant	Exercise Period	
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 2010, 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 2010 are as follows:

	Options held as at 1 January 2010	Options held as at 30 June 2010	Exercise price (HK\$)	Options exercised during the six months ended 30 June 2010
(A) Employees	2,688,000	2,688,000	0.80	–
	1,675,000	280,000	0.56	1,395,000
(B) Directors	<u>9,752,000</u>	<u>9,752,000</u>	<u>0.80</u>	<u>–</u>
<b>Total</b>	<u>14,115,000</u>	<u>12,720,000</u>	<u>–</u>	<u>1,395,000</u>

Note: 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 2010.

Details of the share options granted pursuant to the New Share Option Scheme and remained outstanding as at 30 June 2010 are as follows:

	<b>Options held as at 1 January 2010</b>	<b>Options held as at 30 June 2010</b>	<b>Exercise price (HK\$)</b>	<b>Options exercised during the six months ended 30 June 2010</b>
<b>(A) Employees</b>	1,000,000	1,000,000	0.90	–
<b>(B) Directors</b>	–	–	–	–
<b>Total</b>	<u>1,000,000</u>	<u>1,000,000</u>	<u>–</u>	<u>–</u>

#### 4. Competing Interests

None of the Directors 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 2010 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 2010. 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 2010 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 2010.

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

Hong Kong, 24 August 2010