



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

(incorporated in the Cayman Islands with limited liability)

(Stock code: 8310)

FINAL RESULTS ANNOUNCEMENT
FOR THE YEAR ENDED 31 DECEMBER 2006

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

GEM has been established as a market designed to accommodate companies to which a high investment risk may be attached. In particular, companies may list on GEM with neither a track record of profitability nor any obligation to forecast future profitability.

Furthermore, there may be risks arising out of the emerging nature of companies listed on GEM and the business sectors or countries in which the companies operate. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration. The greater risk profile and other characteristics of GEM mean that it is a market more suited to professional and other sophisticated investors.

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The Stock Exchange takes no responsibility for the contents of this announcement, makes no representation as to its accuracy or completeness and expressly disclaims any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this announcement. This announcement, for which the directors (“Directors”) of JF Household Furnishings Limited (“Company”) collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on the GEM of the Stock Exchange (“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 announcement 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 announcement misleading; and (iii) all opinions expressed in this announcement have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.

HIGHLIGHTS

Turnover for the year ended 31 December 2006 amounted to approximately HK\$193.9 million (2005: Approximately HK\$199.6 million), representing a decrease of approximately 2.9% as compared with preceding year.

Net profit attributable to equity holders of the Company for the year ended 31 December 2006 amounted to approximately HK\$20.7 million (2005: approximately HK\$23.7 million).

Basic and diluted earnings per share for the year ended 31 December 2006 amounted to approximately HK12 cents and HK12 cents respectively. Basic and diluted earnings per share for the year ended 31 December 2005 amounted to approximately HK17 cents and HK17 cents respectively.

THE FINANCIAL STATEMENTS

The Directors are pleased to announce the audited consolidated results of the Company and its subsidiaries collectively, the (“Group”) for the year ended 31 December 2006, together with the comparative audited figures for the year ended 31 December 2005 which have been reviewed and approved by the Audit Committee as follows:

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2006

	<i>Note</i>	2006 <i>HK\$</i>	2005 <i>HK\$</i>
REVENUE	3	193,902,367	199,625,181
Cost of sales		<u>(158,504,600)</u>	<u>(158,922,912)</u>
Gross profit		35,397,767	40,702,269
Other income	3	4,149,471	868,953
Distribution costs		(2,448,438)	(1,512,091)
Administrative expenses		<u>(11,493,403)</u>	<u>(10,826,406)</u>
PROFIT FROM OPERATIONS	4	25,605,397	29,232,725
Finance costs	5	<u>(1,079,321)</u>	<u>(1,247,915)</u>
PROFIT BEFORE TAX		24,526,076	27,984,810
Income tax expense	6	<u>(3,863,193)</u>	<u>(4,325,579)</u>
PROFIT FOR THE YEAR ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY		<u>20,662,883</u>	<u>23,659,231</u>
DIVIDEND	7	<u>8,309,665</u>	<u>9,488,920</u>
EARNINGS PER SHARE	8		
Basic		<u>0.12</u>	<u>0.17</u>
Diluted		<u>0.12</u>	<u>0.17</u>

CONSOLIDATED BALANCE SHEET

At 31 December 2006

	<i>Note</i>	2006 <i>HK\$</i>	2005 <i>HK\$</i>
Non-current assets			
Property, plant and equipment		29,451,777	13,994,401
Land use rights		1,056,784	1,054,752
Deposit paid for acquisition of land use rights		16,015,287	15,553,308
		46,523,848	30,602,461
Current assets			
Inventories		42,326,566	32,944,923
Trade receivables	9	26,527,951	31,205,524
Deposits, other receivables and prepayments		5,941,961	6,891,514
Due from a related company		19,241	139,920
Pledged bank deposits		2,235,712	1,170,000
Bank and cash balances		9,397,280	13,636,669
		86,448,711	85,988,550
Current liabilities			
Trade payables	10	11,451,980	14,854,039
Other payables and accruals		4,196,345	6,070,846
Dividends payable		—	871,876
Due to directors		540,000	571,720
Current tax liabilities		1,735,248	3,202,744
Bank borrowings		25,524,722	15,865,385
		43,448,295	41,436,610
NET CURRENT ASSETS		43,000,416	44,551,940
NET ASSETS		89,524,264	75,154,401
CAPITAL AND RESERVES			
Share capital		1,695,850	1,680,000
Reserves		87,828,414	73,474,401
TOTAL EQUITY		89,524,264	75,154,401

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2006

	Reserve									Total HK\$
	Share capital HK\$	Share premium HK\$	Merger reserve HK\$	Foreign currency translation reserve HK\$	Capital reserve HK\$	General reserve HK\$	Employee share-based compensation reserve HK\$	Retained profits HK\$	Proposed final dividend HK\$	
At 1 January 2005	—	—	7,358,082	—	131,901	5,338,455	—	12,475,416	—	25,303,854
Exchange difference on translation of financial statements of subsidiaries outside Hong Kong	—	—	—	567,597	—	—	—	—	—	567,597
Share issue expenses	—	(10,326,471)	—	—	—	—	—	—	—	(10,326,471)
Net expense recognised directly in equity	—	(10,326,471)	—	567,597	—	—	—	—	—	(9,758,874)
Profit for the year	—	—	—	—	—	—	—	23,659,231	—	23,659,231
Total recognised income and expense for the year	—	(10,326,471)	—	567,597	—	—	—	23,659,231	—	13,900,357
New shares issued on reorganisation	20,000	(20,000)	—	—	—	—	—	—	—	—
Capitalisation of share premium	1,240,000	(1,240,000)	—	—	—	—	—	—	—	—
Shares issued on placing	420,000	33,180,000	—	—	—	—	—	—	—	33,600,000
Recognition of share-based payment	—	—	—	—	—	—	2,350,190	—	—	2,350,190
Transfers	—	—	—	—	—	2,799,847	—	(2,799,847)	—	—
2005 proposed final dividend	—	—	—	—	—	—	—	(9,488,920)	9,488,920	—
At 31 December 2005	<u>1,680,000</u>	<u>21,593,529</u>	<u>7,358,082</u>	<u>567,597</u>	<u>131,901</u>	<u>8,138,302</u>	<u>2,350,190</u>	<u>23,845,880</u>	<u>9,488,920</u>	<u>75,154,401</u>
At 1 January 2006	<u>1,680,000</u>	<u>21,593,529</u>	<u>7,358,082</u>	<u>567,597</u>	<u>131,901</u>	<u>8,138,302</u>	<u>2,350,190</u>	<u>23,845,880</u>	<u>9,488,920</u>	<u>75,154,401</u>
Exchange difference on translation of financial statements of subsidiaries outside Hong Kong	—	—	—	1,897,017	—	—	—	—	—	1,897,017
Net income recognised directly in equity	—	—	—	1,897,017	—	—	—	—	—	1,897,017
Profit for the year	—	—	—	—	—	—	—	20,662,883	—	20,662,883
Total recognised income and expense for the year	—	—	—	1,897,017	—	—	—	20,662,883	—	22,559,900
Share issue on exercise of share options	15,850	1,249,539	—	—	—	—	(377,789)	—	—	887,600
Recognition of share-based payment	—	—	—	—	—	—	411,283	—	—	411,283
Dividend paid	—	—	—	—	—	—	—	—	(9,488,920)	(9,488,920)
Transfers	—	—	—	—	814,931	2,162,027	—	(2,976,958)	—	—
2006 proposed final dividend	—	—	—	—	—	—	—	(8,309,665)	8,309,665	—
At 31 December 2006	<u>1,695,850</u>	<u>22,843,068</u>	<u>7,358,082</u>	<u>2,464,614</u>	<u>946,832</u>	<u>10,300,329</u>	<u>2,383,684</u>	<u>33,222,140</u>	<u>8,309,665</u>	<u>89,524,264</u>

Note:

1. ADOPTION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS

In the current year, the Group has adopted all the new and revised Hong Kong Financial Reporting Standards (“HKFRSs”) issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”) that are relevant to its operations and effective for accounting periods beginning on or after 1 January 2006. HKFRSs comprise Hong Kong Financial Reporting Standards (“HKFRS”); Hong Kong Accounting Standards (“HKAS”); and Interpretations. The adoption of these new and revised HKFRSs did not result in substantial changes to the Group’s accounting policies and amounts reported for the current year and prior years.

The Group has not applied the new HKFRSs that have been issued but are not yet effective. The application of these new HKFRSs will not have material impact on the financial statements of the Group.

2. BASIS OF PREPARATION

These financial statements have been prepared in accordance with HKFRSs issued by the HKICPA, accounting principles generally accepted in Hong Kong and the applicable disclosures required by the GEM Listing Rules and by the Hong Kong Companies Ordinance.

These financial statements have been prepared under the historical cost convention.

3. REVENUE, OTHER INCOME AND SEGMENT INFORMATION

The Group’s turnover represented the net invoiced value of goods sold to customers, after allowances for trade discounts and returns.

	2006	2005
	<i>HK\$</i>	<i>HK\$</i>
Revenue		
Sales of goods	<u>193,902,367</u>	<u>199,625,181</u>
Other income		
Interest income	216,374	61,403
Government grants	2,410,901	729,805
Write off of trade payables	1,107,244	—
Others	<u>414,952</u>	<u>77,745</u>
	<u>4,149,471</u>	<u>868,953</u>

Segment information is presented by way of two segment formats:

- (i) on a primary segment reporting basis, by geographical segments; and
- (ii) on a secondary segment reporting basis, by business segments.

The Group is principally engaged in manufacturing and sale of furnishings and home products.

(a) Geographical segments based on the location of customers

In determining the Group's geographical segments, revenues, results, assets and liabilities are attributed to the segments based on the location of the customers.

The following tables present revenue, results, assets, liabilities and capital expenditure information for the Group's geographical segments.

	People's Republic of China ("PRC")		Hong Kong		Consolidated	
	2006	2005	2006	2005	2006	2005
	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$
Segment revenue:						
Sales to external customers	<u>40,305,064</u>	<u>29,543,207</u>	<u>153,597,303</u>	<u>170,081,974</u>	<u>193,902,367</u>	<u>199,625,181</u>
Segment results	<u>2,899,298</u>	<u>3,182,417</u>	<u>24,863,946</u>	<u>32,263,892</u>	<u>27,763,244</u>	<u>35,446,309</u>
Other income					<u>4,149,471</u>	<u>868,953</u>
Unallocated expenses					<u>(6,307,318)</u>	<u>(7,082,537)</u>
Profit from operations					<u>25,605,397</u>	<u>29,232,725</u>
Finance costs					<u>(1,079,321)</u>	<u>(1,247,915)</u>
Profit before tax					<u>24,526,076</u>	<u>27,984,810</u>
Income tax expense					<u>(3,863,193)</u>	<u>(4,325,579)</u>
Profit for the year					<u>20,662,883</u>	<u>23,659,231</u>
Segment assets	<u>8,146,282</u>	<u>9,673,860</u>	<u>18,389,166</u>	<u>21,605,295</u>	<u>26,535,448</u>	<u>31,279,155</u>
Unallocated assets					<u>106,437,111</u>	<u>85,311,856</u>
Total assets					<u>132,972,559</u>	<u>116,591,011</u>
Segment liabilities	<u>1,065,033</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>1,065,033</u>	<u>—</u>
Unallocated liabilities					<u>42,383,262</u>	<u>41,436,610</u>
Total liabilities					<u>43,448,295</u>	<u>41,436,610</u>
Other segment information:						
Unallocated depreciation					<u>1,021,559</u>	<u>838,238</u>
Unallocated capital expenditure					<u>16,065,772</u>	<u>5,131,359</u>

(b) Geographic segments based on the location of assets

All of the Group's assets are substantially located in the PRC. No additional information in respect of segment assets and capital expenditure information are presented.

(c) Business segments

No business segment information is presented as all the Group's turnover and contribution to operating results were arose from manufacturing and sale of furnishings and home products during the year.

4. PROFIT FROM OPERATIONS

The Group's profit from operations is stated after charging the following:

	2006	2005
	<i>HK\$</i>	<i>HK\$</i>
Cost of inventories sold	158,504,600	158,922,912
Depreciation	1,021,559	838,238

5. FINANCE COSTS

	2006	2005
	<i>HK\$</i>	<i>HK\$</i>
Interest on bank loans	1,220,745	1,247,915
Amount capitalised	(141,424)	—
	1,079,321	1,247,915

6. INCOME TAX EXPENSE

(a) Taxation included in the consolidated income statement represents:

	2006	2005
	<i>HK\$</i>	<i>HK\$</i>
Current tax — PRC enterprise income tax	3,879,904	4,325,579
Over-provision in prior years	(16,711)	—
	<hr/>	<hr/>
Income tax expense	<u>3,863,193</u>	<u>4,325,579</u>

No provision for Hong Kong Profits Tax in Hong Kong is required since the Group has no assessable profit for the year (2005: HK\$Nil).

(b) The reconciliation between the income tax expense and the product of profit before tax multiplied by the PRC enterprise income tax rate is as follows:

	2006	2005
	<i>HK\$</i>	<i>HK\$</i>
Profit before tax	<u>24,526,076</u>	<u>27,984,810</u>
Tax at PRC enterprise income tax rate of 33% (2005: 33%)	8,093,605	9,234,987
Effect of preferential tax rate	(4,856,163)	(5,540,992)
Tax effect of income that is not taxable	(106,750)	(96,334)
Tax effect of expenses that are not deductible	707,866	945,832
Tax effect of temporary differences not recognised	—	(225,058)
Tax effect of tax losses not recognised	41,346	7,144
Over-provision in prior year	(16,711)	—
	<hr/>	<hr/>
Income tax expense	<u>3,863,193</u>	<u>4,325,579</u>

7. DIVIDEND

	2006	2005
	<i>HK\$</i>	<i>HK\$</i>
Proposed final dividend		
— HK4.9 cents (2005: HK5.6 cents) per ordinary share	<u>8,309,665</u>	<u>9,488,920</u>

The final dividend proposed after the balance sheet date have not been recognised as a liability at the balance sheet date. The final dividend of HK4.9 cents per share amounting to HK\$8,309,665 in respect of year ended 31 December 2006 has been proposed by the directors and is subject to approval by the equity shareholders in the forthcoming annual general meeting.

8. EARNINGS PER SHARE

The calculation of basic and diluted earnings per share are based on the following:

	2006	2005
	<i>HK\$</i>	<i>HK\$</i>
Earnings		
Profit attributable to equity holders of the Company, used in the basic and diluted earnings per share calculation	<u>20,662,883</u>	<u>23,659,231</u>
Number of shares		
Weighted average number of ordinary shares used in basic earnings per share calculation	168,922,054	135,320,548
Effect of share option	<u>1,635,318</u>	<u>635,178</u>
Weighted average number of ordinary shares used in diluted earnings per share calculation	<u>170,557,372</u>	<u>135,955,726</u>

The basis of calculation of the earnings per share for 2005 have been changed to conform to the current year's basis of calculation.

9. 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:

	2006	2005
	<i>HK\$</i>	<i>HK\$</i>
0 - 30 days	23,594,740	18,507,628
31 - 60 days	1,521,422	10,946,081
61 - 90 days	1,376,771	1,751,815
Over 90 days	<u>35,018</u>	<u>—</u>
	<u>26,527,951</u>	<u>31,205,524</u>

10. TRADE PAYABLES

The credit terms of trade payables varies according to terms of different suppliers which generally ranging from letter of credit at sight to 90 days. The ageing analysis of trade payables is as follows:

	2006	2005
	<i>HK\$</i>	<i>HK\$</i>
0 - 30 days	7,784,539	5,759,646
31 - 60 days	2,315,599	2,562,711
61 - 90 days	579,442	2,141,831
Over 90 days	772,400	4,389,851
	<u>11,451,980</u>	<u>14,854,039</u>

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

Year 2006 was a challenging year for the Group. The Group faced an increasing cost pressure as the prices of stainless steel rose steeply and the RMB currency also rose faster than the year before. The management of the Group has taken steps to minimise the impact, including using alternative materials to lower the costs.

Year 2006 was also a year of investment for the Group. The Group continued to expand its production capacity and to invest time and effort to build a larger platform for more diversified products and customer base.

During the year, the Group completed a new building, adding 5,000 square meter (“m²”) to the existing production plant. The Group also started to construct a new plant on the piece of land acquired at the end of 2005 to house the new timber production lines. The new plant will have a floor area of 30,000 m², which is twice the size of the existing plant.

To prepare for an ambitious expansion in the new timber household products, the Group started a new pilot line for timber production. The pilot line had been fully tested and product samples have been approved by customer. Regular delivery of the pilot line started in August 2006 of the year under review and monthly delivery has been steadily increasing to around RMB 3 million per month during the last quarter of 2006.

In order to expand the Group’s business and customer base, 12 new products for sales in the metal area, and 13 new products for sales in the timber area had been successfully developed. In addition, one significant potential European customer had commenced to perform a review process on the Group. The Group will strive to become a qualified supplier of this new potential customer.

During the year, the Group spent substantial efforts and resources to develop a larger product range and customer base. These efforts were cost orientated and created impact on the bottom line results. However the management is confident that the impact would only affect the Group in short term as the completion of the new 30,000 m² new plant will provide the Group with sufficient production capacity and rooms for expansion for both of the stainless steel products and newly developed metal and/or wooden products.

OUTLOOK AND FUTURE PROSPECTS

Year 2007 is the beginning of a new chapter for the Group. With the expected completion of the 30,000 m² new production plant in March 2007, the Group's production capacities will be substantially increased and a good foundation has been laid for the growth and diversification in the coming years.

The pilot production in the timber line has been very encouraging with satisfactory remarks from the customer. The Group is ready for a significant expansion in this new area. In response to the suggestion of our key customer, the Group has accelerated the order of new equipment and the completion of the new plant. Equipment for the two new lines had arrived in the plant in March 2007. The Group's management is therefore confident that a significant growth of business will come in year 2007.

The completion of the new plant will also be beneficial to the Group as a whole for the following areas:

1. relocation of the timber line to the new location will release space for stainless steel products.
2. additional space will also allow the Group to set up new lines of production for new customers as the Group has a policy of not mixing production for each customer.
3. the Group's plan to diversify into metal products other than stainless steel will also require a new production line in a separate area.

Several new products have been developed for the stainless steel division, and initial indications from the key customer was positive. It is expected that these new products will generate significant growth for the Group in the stainless steel area in year 2007.

The appreciation of RMB continued to affect the costs for the Group. Management will take all necessary and available steps to minimise the costs associated with the appreciation of RMB.

With the necessary investment actions of 2006 behind us, the Directors are optimistic that in year 2007, the Group will retrieve the trend of growth with the mid to long term strategic business development plan being implemented and actualized .

RESULTS OF OPERATIONS

For the fiscal year ended 31 December 2006, the Group reported a turnover of approximately HK\$193.9 million, representing a decrease of 2.9% from the fiscal year ended 2005. Gross profit margin dropped to 18.3%, slightly lower than that of 20.4% achieved last year, mainly because of a steep increase in the stainless steel price.

Stainless steel (type 304 ("Type 304")) price increased from an average of RMB19,400 in January 2006 to RMB36,900 in December 2006. To lessen the impact of such steep increase, it was mutually agreed between the Group and the Group's key customer that a more affordable stainless steel material (type 430) was used in place of Type 304. The use of a lower grade material has the effect of a lower turnover for the same quantity of goods shipped.

A major inventory reduction exercise by the Group's key customer also lowered the Group's turnover in 2006. The order lead time for this major customer changed from four weeks previously to one week during the year under review. This shift had slowed down the orders significantly for the first half of the year.

Distribution costs increased to approximately HK\$2.5 million or 61.9%, mainly due to higher transportation costs and new promotional expenses. Transportation costs increased by approximately HK\$590,000, or 57.7% due to higher energy costs and higher transportation costs related to the new timber products. In order to diversify customer base, the Group also spent approximately HK\$220,000 participating in two trade shows; one in Italy and one in Guangzhou.

Administrative expenses increased from approximately HK\$10.8 million in 2005 to approximately HK\$11.5 million during the year under review mainly due to higher staff costs related to expansion and higher exchange losses. A faster appreciation of the RMB resulted in an exchange loss of approximately HK\$2.2 million, compared to the loss of approximately HK\$617,000 in 2005.

Finance charges dropped slightly as funds raised from listing in the Stock Exchange improved the liquidity of the Group.

LIQUIDITY, FINANCIAL RESOURCES AND FUNDING AND TREASURY POLICY

As at 31 December 2006, the Group had bank and cash balances of approximately HK\$9.4 million (2005: approximately HK\$13.6 million) and net current assets of approximately HK\$43.0 million, about the same level of 2005: approximately HK\$44.6 million. Non-current assets increased by approximately HK\$15.9 million to approximately HK\$46.5 million in the financial year 2006. The increase was mainly due to the acquisition of a new piece of land and the construction of a new plant.

As at 31 December 2006, the Group had current liabilities of approximately HK\$43.4 million, about the same level as that of year 2005.

Most of the trading transactions, assets and liabilities of the Group were denominated in RMB, US Dollars and Hong Kong Dollars. The Group adopted a conservative treasury policy with no foreign exchange contracts, interest or currency swaps or other financial derivatives for hedging purposes.

GEARING RATIO

The Group's gearing ratio, which was derived from the total borrowings to total assets, increased to 19.2%, up from 13.6% in 2005, as the Group had increased its borrowing to finance the construction of the new plant.

FUTURE PLANS FOR MATERIAL INVESTMENTS

Save as disclosed in this announcement and the Company's Prospectus dated 5 October 2005 ("Prospectus"), the Company had no material acquisition or capital expenditure plan as of 31 December 2006.

MATERIAL ACQUISITIONS AND DISPOSALS

Save as disclosed in this announcement, the Group did not have any material acquisitions and disposals of subsidiaries and affiliated companies.

CONTINGENT LIABILITIES

As at 31 December 2006, the Group had contingent liabilities in respect of bills of exchange discounted to a bank with recourse amounting to approximately HK\$900,000 (2005: HK\$ Nil).

FOREIGN EXCHANGE EXPOSURE

All transactions of the Group are denominated in Renminbi, Hong Kong Dollars or US Dollars. As RMB has been appreciating faster recently, the Group's exchange losses will be larger as a large part of the Group's revenue are denominated in US Dollars. The Management is taking steps to minimize the losses from the appreciation of the RMB currency.

EMPLOYEES AND REMUNERATION POLICY

As at 31 December 2006, the Group employed approximately 713 staff in the PRC and Hong Kong, representing an increase of 92 staff from 31 December 2005. The increase in staff was mainly attributable to the Group's expansion in the PRC operations. Accordingly, the Group's remuneration to employees, including Directors' emoluments, decreased by approximately HK\$0.87 million to approximately HK\$16.6 million for the current fiscal year. 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.

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 only ordinary shares.

COMPARISON OF THE BUSINESS OBJECTIVES WITH ACTUAL BUSINESS PROGRESS

In compliance with the GEM Listing Rules, the Company sets out below a summary of actual business progress as measured against the business objectives set out in the Prospectus.

For the period from 1 January 2006 to 30 June 2006 (the “First Relevant Period”).

Business Objectives for the First Relevant Period as stated in the Prospectus Actual Business Progress

Expand production plant and facilities

- Construct the 1st phase of the new production plant with total gross floor area of approximately 15,000 m² on the new piece of land — A new production plant with 30,000 m² to be completed by end of 2006 is being built on the new 44,105 m² land site.

Product diversification

- Purchase new production machineries and facilities and furnishings and home products and accessories using both stainless steel and other types of steel — A new PET welding machine has been bought to improve the welding process of the stainless steel product.
- A pilot run wooden furniture production line capable of batch type production has been in place and already in production.

Explore new business opportunities

- Expand sales department to handle the expanding PRC market — A separate marketing department had been set up to handle new customers group. Has started discussion with more than seven furniture retailers and wholesalers in North America and across Europe, including UK, Germany and Italy.
- Participate in home furnishings trade fairs — Participated in the Italian furniture trade show and the Guangzhou trade fair.

Improve the overall management systems

- Strengthen the production management system and implement the ISO9000 Standard — Engaged a Chinese consultant firm to implement the ISO 9000 system
- Purchase new computer hardware and software to facilitate better internal control — Purchased 17 new computers and set up a new LAN system linking all computers in the Yuyao Factory.

For the period from 1 July 2006 to 31 December 2006 (the “Second Relevant Period”).

Business Objectives for the Second Relevant Period as stated in the Prospectus **Actual Business Progress**

Expand production plant and facilities

- | | |
|--|---|
| • Purchase new facilities for the first phase of the production plant including power supplies, fire prevention facilities, and office renovation. | The construction of the new 30,000m ² . production plant is in progress and near completion. |
| • Set up automatic production facilities | New equipment has been ordered |

Product diversification

- | | |
|---|---|
| • Complete the set up for production using other types of steel | Continue to add various facilities for production using other types of steel and timber |
|---|---|

Explore new business opportunities

- | | |
|--|--|
| • Promote the brand name of the Group by advertising in home furnishings magazines | Appoint an American company to be the Group’s agent to find new customers and promote the Group’s products in the USA. |
|--|--|

Improve the overall management systems and control systems

- | | |
|---|---|
| • Strengthen the production management system and implement the ISO9000 standard | Appoint a German company to implement the certification of ISO9000 and ISO14000 |
| • Purchase new computer hardware and software to facilitate better internal control | Established intranet within the PRC operation, and system for electronic declaration of import/export license |

APPLICATION OF PROCEEDS FROM CAPITAL RAISING

The Group raised approximately HK\$23.2 million from the issue of 42,000,000 new shares of the Company at HK\$0.80 per share in October 2005. The Company’s shares were successfully listed on GEM with effect from 13 October 2005. Up to the date of this announcement, the Group has applied part of the proceeds totalling approximately HK\$17.62 million for the following purposes:

- (i) approximately HK\$13.53 million for the expansion of production capacity;
- (ii) approximately HK\$2.98 million for product diversification;
- (iii) approximately HK\$0.66 million for strengthening the sales and marketing team; and
- (iv) approximately HK\$0.45 million for improving overall management system.

DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURE OF THE COMPANY OR ITS ASSOCIATED CORPORATIONS

As at 31 December 2006, the interests and short positions of the Directors and the chief executives of the Company and each of their respective associates (as defined under the GEM Listing Rules), in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) (“SFO”) which (a) were required, to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of the Part XV of the SFO (including interests and short positions which the Directors were taken or deemed to have under such provisions of the SFO); or (b) were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (c) were required, pursuant to Rules 5.46 to 5.67 of the GEM Listing Rules, to be notified to the Company and the Stock Exchange were as follows:

Interests in the shares of the Company

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 <i>(Note 1)</i>	44.6%
Mr Leung Kwok Yin	15,120,000	—	35,280,000	50,400,000 <i>(Note 2)</i>	29.7%

Notes:

- Among these 75,600,000 shares, (i) 34,020,000 shares were registered in the name of Excel Strength Investments Limited (“**Excel Strength**”); (ii) 28,980,000 shares were registered in the name of Willhero Investments Limited (“**Willhero**”); and (iii) the remaining 12,600,000 shares were registered in the name of Mr Yan Siu Wai directly. Each of Excel Strength and Willhero is a company incorporated in the BVI and whose entire issued capital is solely owned by Mr Yan Siu Wai. By virtue of the SFO, Mr Yan Siu Wai was deemed to be interested in 63,000,000 shares through his shareholdings in Excel Strength and Willhero.
- Among these 50,400,000 shares, (i) 22,680,000 shares were registered in the name of Hero Talent Investments Limited (“**Hero Talent**”); (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.

Interests in underlying shares of the Company

As at 31 December 2006, three executive Directors have been granted options to subscribe for shares, pursuant to the Pre-IPO Shares 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	2,956,800	8 September 2005	13 April 2006 to 12 October 2010	HK\$0.80
Mr. Bao Jisheng	3,360,000	8 September 2005	13 April 2006 to 12 October 2010	HK\$0.80

Note:

The exercise of the options by the Directors was subject to a moratorium period of 12 months from the date of listing which had expired on 12 October 2006.

Save as disclosed above, as at 31 December 2006, none of the Directors or chief executive of the Company and each of their respective associates (as defined under the GEM Listing Rules) had or was deemed to have any interests or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which (a) were 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 or short positions which the Directors were taken or deemed to have under such provisions of the SFO); or (b) were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein; or (c) were required, pursuant to Rules 5.46 to 5.67 of the GEM Listing Rules relating to securities transactions by the Directors, to be notified to the Company and the Stock Exchange.

SUBSTANTIAL SHAREHOLDERS

As at 31 December 2006, other than the interests disclosed above in respect of certain Directors, the Directors were not aware of any other persons who had an interests or a short positions in the shares or the underlying shares of the Company as recorded in the register required to be kept under section 336 of the SFO.

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 December 2006 are as follows:

	Options held as at 1 January 2006	Options held as at 31 December 2006	Exercise price (HK\$)	Exercisable in April 2006	Exercisable in October 2006
(A) Employees	2,688,000	2,688,000	0.80	2,688,000	
	6,720,000	5,135,000 (note)	0.56	5,135,000	
(B) Directors					
Yan Siu Wai	4,435,200	4,435,200	0.80		4,435,200
Leung Kwok Yin	2,956,800	2,956,800	0.80		2,956,800
Bao Jisheng	3,360,000	3,360,000	0.80		3,360,000
	<u>20,160,000</u>	<u>18,575,000</u>		<u>7,823,000</u>	<u>10,752,000</u>

Note: 1,445,000 share options were exercised in May 2006 and 140,000 share options were exercised in October 2006 by the employees.

DIRECTORS' INTERESTS IN CONTRACTS

No contract of significance to which the Company or any of its subsidiaries was a party and in which a Director had a material interest, whether directly or indirectly, subsisted at the end of the year or any time during the year save and except for the transactions disclosed as connected and/or related party transactions in accordance with the requirements of the GEM Listing Rules and accounting principles generally accepted in Hong Kong.

PURCHASE, SALE OR REDEMPTION OF SHARES

Since the listing of the Company's shares on GEM on 13 October 2005, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's shares.

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 year ended 31 December 2006.

CODE OF BEST PRACTICE

The Group is committed to ensuring high standards of corporate governance and business practices. Subject to the deviations as disclosed in this announcement, the Group had complied throughout the period from 1 January 2006 to 31 December 2006 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.

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 comprises the three independent non-executive Directors, namely, Mr. Kwan Kai Cheong (chairman), Mr. Garry Alides Willinge and Mr. Yu Hon Wing, Allan.

The audit committee members possess diversified industry experience and the Chairman is an expert on financial and auditing matters. The audit committee meets four times each year. During 2006, the audit committee considered the external auditors' projected audit fees, discussed with the external auditors their independence and the nature and scope of the audit, reviewed the interim and annual financial statements and reviewed the external auditors' management letter and management's response. As a result, they recommended the Board to adopt the quarterly and annual reports for 2006.

COMPLIANCE ADVISER'S INTEREST

During year 2006, the Group had appointed a new compliance adviser. Following the resignation of Deloitte & Touche Corporate Finance Ltd. with effect on 6 June 2006, Tanrich Capital Ltd. ("Tanrich") had been appointed a new compliance adviser of the Company with effect on 15 September 2006.

As at 31 December 2006, neither Tanrich 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 Tanrich, Tanrich has been appointed as the compliance adviser to the Company as required under the GEM Listing Rules at a fee for the period commenced from 15 September 2006.

COMPETING INTEREST

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

CLOSURE OF REGISTER OF MEMBER

The register of members will be closed from 29 May 2007 to 3 June 2007, both days inclusive. In order to qualify for the proposed final dividend, all transfers, accompanied by the relevant share certificates, must be lodged with the Company's Share Registrars, Tricor Investor Services Limited at the above address no later than 4:00 p.m. on 28 May 2007.

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

Hong Kong, 26 March 2007

DIRECTORS OF THE COMPANY

Executive Directors as at the date of this announcement are *Mr. Yan Siu Wai (Chairman), Mr. Leung Kwok Yin, Mr. Bao Jisheng.*

Independent non-executive Directors as at the date of this announcement are *Mr. Kwan Kai Cheong, Mr. Garry Alides Willinge, Mr. Yu Hon Wing, Allan.*

This announcement will remain on the "Latest Company Announcements" page of the GEM website for at least 7 days from the date of its posting.