

\* For identification purpose only

# Interim Report 2007



名 家 國 際

**FAVA INTERNATIONAL HOLDINGS LIMITED**  
**名家國際控股有限公司\***

(Incorporated in Bermuda with limited liability)

Stock Code : 8108

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*This report, for which the directors (the “Director(s)”) of FAVA International Holdings Limited collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited (the “GEM Listing Rules”) for the purpose of giving information with regard to FAVA International Holdings Limited. The Directors, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief:– 1. the information contained in this report is accurate and complete in all material respects and not misleading; 2. there are no other matters the omission of which would make any statement in this report misleading; and 3. all opinions expressed in this report have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.*

## INTERIM RESULTS (UNAUDITED)

The board of directors (the "Board") of FAVA International Holdings Limited (the "Company") presents the unaudited consolidated interim financial statements of the Company and its subsidiaries (the "Group") for the three months and six months ended 30 June 2007 together with the comparative figures.

### CONSOLIDATED INCOME STATEMENT (UNAUDITED)

For the three months and six months ended 30 June 2007

	Notes	Three months ended 30 June		Six months ended 30 June	
		2007 HK\$'000	2006 HK\$'000 (Restated)	2007 HK\$'000	2006 HK\$'000 (Restated)
Turnover	2	105,993	39,418	164,649	60,648
Cost of sales		(71,141)	(25,955)	(109,906)	(42,591)
Gross profit		34,852	13,463	54,743	18,057
Other revenue		104	162	324	162
Administrative expenses		(1,976)	(944)	(5,514)	(1,809)
Other operating expenses		(3,411)	(175)	(4,059)	(184)
Profit from operations		29,569	12,506	45,494	16,226
Finance costs		(82)	(37)	(366)	(37)
Net unrealised holding loss on other investments in unit trust		(153)	–	(153)	–
Profit before taxation		29,334	12,469	44,975	16,189
Taxation	3	(4)	–	(700)	–
Profit for the period from continuing operations		29,330	12,469	44,275	16,189
Discontinued operation Loss for the period from discontinued operations		–	(524)	–	(759)
Net profit for the period		29,330	11,945	44,275	15,430
Interim dividend	4	–	–	–	–
		<b>HK cents</b>	<b>HK cents</b>	<b>HK cents</b>	<b>HK cents</b>
Profit per share from continuing and discontinued operations – basic	5	5.7	8.7	8.5	11.2
Profit per share from continuing operations – basic	5	5.7	9.1	8.5	11.8

## CONSOLIDATED BALANCE SHEET

		<b>30 June 2007 HK\$'000 (Unaudited)</b>	31 December 2006 HK\$'000 (Audited)
<b>NON-CURRENT ASSETS</b>			
Fixed assets		<b>74,527</b>	239
Other investment		<b>2,845</b>	–
		<b>77,372</b>	239
<b>CURRENT ASSETS</b>			
Inventories	7	<b>70,822</b>	28,609
Trade and bills receivables	8	<b>14,630</b>	9,862
Prepayments, deposit and other receivables	9	<b>56,080</b>	58,784
Amount due from a former subsidiary		<b>51</b>	51
Cash and bank balances	10	<b>25,031</b>	1,711
		<b>166,614</b>	99,017
<b>CURRENT LIABILITIES</b>			
Trade payables	11	<b>16,507</b>	18,351
Other payables and accrued liabilities	12	<b>4,019</b>	3,271
Received in advance		<b>4,617</b>	13,677
Amount due to a shareholder		<b>–</b>	761
Tax payable		<b>2,092</b>	–
Obligations under finance lease-due within one year		<b>13</b>	13
		<b>27,248</b>	36,073
<b>NET CURRENT ASSETS</b>		<b>139,366</b>	62,944
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		<b>216,738</b>	63,183
<b>NON-CURRENT LIABILITIES</b>			
Obligations under finance lease-due after one year		<b>6</b>	13
<b>NET ASSETS</b>		<b>216,732</b>	63,170
<b>CAPITAL AND RESERVES</b>			
Share Capital	13	<b>2,405</b>	2,005
Reserves		<b>214,327</b>	61,165
		<b>216,732</b>	63,170

## CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (UNAUDITED)

	Share Capital HK\$'000	Share Premium HK\$'000	Contributed Surplus HK\$'000	Accumulated (Losses)/ Profits HK\$'000	Exchange Reserve HK\$'000	Statutory Reserves HK\$'000	Total HK\$'000
<i>For the six months ended 30 June 2006</i>							
At 1 January 2006	1,421	26,650	36,527	(70,734)	(140)	-	(6,276)
Placing of new shares	284	-	-	-	-	-	284
Premium arising from placing of new shares, net of expenses	-	1,419	-	-	-	-	1,419
Exchange difference arising from translation of financial statements of subsidiaries	-	-	-	-	495	-	495
Net profit for the six months ended 30 June 2006	-	-	-	15,430	-	-	15,430
At 30 June 2006	1,705	28,069	36,527	(55,304)	355	-	11,352
<i>For the six months ended 30 June 2007</i>							
At 1 January 2007	2,005	47,267	36,000	(30,604)	1,114	7,388	63,170
Subscription of shares	400	-	-	-	-	-	400
Premium arising from issue of new share, net of expense	-	104,511	-	-	-	-	104,511
Exchange differences arising from translation of financial statements of subsidiaries	-	-	-	-	4,376	-	4,376
Net profit for the six months ended 30 June 2007	-	-	-	44,275	-	-	44,275
At 30 June 2007	2,405	151,778	36,000	13,671	5,490	7,388	216,732

## CONDENSED CONSOLIDATED CASH FLOW STATEMENT (UNAUDITED)

*For the six months ended 30 June*

	2007 HK\$'000	2006 HK\$'000
NET CASH INFLOWS FROM OPERATING ACTIVITIES	716	8,812
NET CASH (USED IN)/INFLOWS FROM INVESTING ACTIVITIES	(178,816)	2
NET CASH INFLOWS FROM FINANCING ACTIVITIES	201,420	93
NET INCREASE IN CASH AND CASH EQUIVALENTS	23,320	8,907
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE PERIOD	1,711	392
CASH AND CASH EQUIVALENTS AT END OF THE PERIOD	25,031	9,299
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS		
Cash and bank balances	25,031	9,299

Notes:

## 1. Basis of preparation

The Group's unaudited interim results have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by Hong Kong Institute of Certified Public Accountants ("HKICPA"), including compliance with Hong Kong Accounting Standard 34 "Interim financial reporting", accounting principles generally accepted in Hong Kong and the applicable disclosures required by the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited (the "GEM Listing Rules") and by the Hong Kong Companies Ordinance.

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

The accounting policies adopted in preparing the unaudited condensed consolidated financial statements for the six months ended 30 June 2007 are consistent with those adopted in the annual report of the Company for the year ended 31 December 2006.

## 2. Turnover

The Group's turnover represents the income received from the net invoiced value of household products manufactured and sold and the provision of telephone sets subcontracting services, after allowance for returns and trade discounts where applicable. An analysis of the Group's turnover is as follows:

	Three months ended 30 June		Six months ended 30 June	
	2007	2006	2007	2006
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Manufacture and sales of household products	<b>105,993</b>	39,418	<b>164,649</b>	60,648
Provision of telephone sets subcontracting services	–	226	–	514
	<b>105,993</b>	39,644	<b>164,649</b>	61,162
Attributable to continuing operation reported in the consolidated income statement	<b>105,993</b>	39,418	<b>164,649</b>	60,648
Telephone sets subcontracting services attributable to discontinued operations	–	226	–	514
	<b>105,993</b>	39,644	<b>164,649</b>	61,162

### 3. Taxation

No provision for Hong Kong profits tax has been made as the Group has no assessable profit in Hong Kong for the six months ended 30 June 2007 (six months ended 30 June 2006: Nil).

The PRC enterprise income tax ("EIT") represents tax charges on the assessable profits of the PRC subsidiaries of the Group at the prevailing tax rates applicable. One of the two PRC subsidiaries of the Group, Langfang Huari Hengyu Home Co., Ltd\* (廊坊華日恒宇家居有限公司), which is formerly known as Langfang Hengyu Home Co., Ltd\* (廊坊恒宇家居有限公司), is categorised as a foreign investment enterprise and is entitled to preferential tax treatments including full exemption from EIT for the initial two years starting from their first profit-making year following by a 50% reduction for the next consecutive three years. EIT charge for the other PRC subsidiary of the Group, Lang Fang Tian Feng Home Co., Ltd\* (廊坊天豐家居有限公司), for the six months ended 30 June 2007 was approximately HK\$700,000 (six months ended 30 June 2006: Nil).

There was no significant unprovided deferred taxation for the six months ended 30 June 2007 (six months ended 30 June 2006: Nil).

Deferred tax had not been provided as there were no significant temporary differences at the period-end date (2006: Nil).

### 4. Interim dividend

No interim dividend has been paid or declared by the Company for the six months ended 30 June 2007 (six months ended 30 June 2006: Nil).

### 5. Profit per share

The calculation of the basic profit per share is based on the Group's net profit for the six months ended 30 June 2007 of approximately HK\$44,275,000 (six months ended 30 June 2006: net profit of approximately HK\$15,430,000), and the weighted average of 518,906,285 ordinary shares (six months ended 30 June 2006: 137,424,641 ordinary shares) in issue during the six months ended 30 June 2007 after adjusting the effects of the subscription of new shares on 12 February 2007. The basic profit per share for the six months ended 30 June 2006 is adjusted accordingly.

Diluted profit per share for the six months ended 30 June 2007 and 2006 have not been disclosed as no dilutive events existed during these periods.

## 6. Segment information

Segment information is presented by way of two segment formats: (i) on a primary segment reporting basis, by business segment; and (ii) on a secondary segment reporting basis, by geographical segment.

Segment information is presented by way of the Group's primary segment reporting basis, by business segment.

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

Inter-segment sales and transfers are transacted with reference to the selling prices used for sales made to third parties at the then prevailing market prices.

Segment assets consist primarily of property, plant and equipment, inventories, trade and other receivables and cash and bank balances.

Segment liabilities comprise operating liabilities.

Unallocated assets and liabilities comprise items such as corporate borrowings.





(a) *Business segments*

The following tables present revenue, profit and certain asset, liability and expenditure information for the Group's business segments for the six months ended 30 June 2007 and 2006.

	Continuing		Discontinued		Total	
	Manufacture and sales of household products		Telephone sets subcontracting services			
	2007	2006	2007	2006	2007	2006
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Segment revenue						
Sales to external customers	164,649	60,648	-	514	164,649	61,162
Segment results	54,743	18,057	-	25	54,743	18,082
Interest income and unallocated corporate revenue					324	203
Interest expenses and unallocated corporate expenses					(10,092)	(2,855)
Profit before taxation					44,975	15,430
Taxation					(700)	-
Net profit for the period					44,275	15,430

	Continuing		Discontinued			
	Manufacture and sales of household products		Telephone sets subcontracting services			
	2007	2006	2007	2006	Total	
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)

**Assets and liabilities**

Segment assets	<b>243,525</b>	42,470	-	892	<b>243,525</b>	43,362
Corporate and other unallocated assets					<b>461</b>	399
Total assets					<b>243,986</b>	43,761
Segment liabilities	<b>26,844</b>	22,628	-	7,606	<b>26,844</b>	30,234
Corporate and other unallocated liabilities					<b>410</b>	2,175
Total liabilities					<b>27,254</b>	32,409

	Continuing		Discontinued				
	Manufacture and sale of household products		Telephone sets subcontracting services				
	2007	2006	2007	2006	Unallocated		Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)

**Other segment information**

Depreciation	6,246	-	-	15	-	-	6,246	15
Capital expenditure	77,861	8	-	-	-	-	77,861	8

(b) *Geographical segments*

During the period under review, the Group's turnover was mainly derived from customers located in the PRC, United States of America ("USA") and European Union. All assets of the Group are located in the PRC (including Hong Kong). Over 95% of the Group's results, assets and capital expenditures are derived from operations carried out in the PRC. Accordingly, no further geographical segment information is presented in the financial statements except for turnover.

	Continuing		Discontinued		Total	
	Manufacture and sales of household products		Telephone sets subcontracting services			
	2007	2006	2007	2006	2007	2006
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Sales						
The PRC	142,799	48,688	-	514	142,799	49,202
USA	7,011	4,301	-	-	7,011	4,301
European Union	14,380	7,659	-	-	14,380	7,659
Others	459	-	-	-	459	-
	164,649	60,648	-	514	164,649	61,162

Sales are allocated based on the countries in which customers are located.

7. **Inventories**

	As at 30 June 2007 HK\$'000 (Unaudited)	As at 31 December 2006 HK\$'000 (Audited)
Raw materials	12,188	319
Work in progress	25,965	22,310
Finished goods	32,669	5,980
	70,822	28,609

**8. Trade and bills receivables**

An aging analysis of the trade and bill receivables as at the balance sheet date, based on the invoice date and net of provisions, is as follows:

	<b>As at 30 June 2007 (Unaudited) HK\$'000</b>	<b>As at 31 December 2006 (Audited) HK\$'000</b>
0 – 60 days	<b>10,389</b>	9,215
61 – 90 days	<b>1,803</b>	260
91 – 180 days	<b>2,113</b>	245
Over 180 days	<b>325</b>	142
	<b>14,630</b>	9,862

The Directors considered that the carrying values of trade and bills receivables approximate their fair values.

**9. Prepayments, deposits and other receivables**

	<b>As at 30 June 2007 HK\$'000 (Unaudited)</b>	<b>As at 31 December 2006 HK\$'000 (Audited)</b>
Prepayments	<b>12,293</b>	58,032
Deposits and other receivables	<b>43,787</b>	753
	<b>56,080</b>	58,785
Less: Provision for impairment of other receivables	–	(1)
	<b>56,080</b>	58,784

Prepayments, deposits and other receivables are non-interest bearing and the Directors considered that the carrying values of prepayments, deposits and other receivables approximate their fair values.

**10. Cash and bank balances**

	<b>As at 30 June 2007 HK\$'000 (Unaudited)</b>	<b>As at 31 December 2006 HK\$'000 (Audited)</b>
Cash and bank balances	<b>25,031</b>	1,711

At the balance sheet date, the cash and bank balances of the Group denominated in Renminbi ("RMB") amounted to approximately HK\$22,381,000 (as at 30 June 2006: approximately HK\$9,299,000). RMB is not freely convertible into other currencies. However, under the Foreign Exchange Control Regulations and the Administration of Settlement, Sale and Payment of Foreign Exchange Regulations of the PRC, the Group is permitted to exchange RMB for other currencies through banks which are authorised to conduct foreign exchange business.

**11. Trade payables**

An aging analysis of the trade payables as at the balance sheet date, based on the invoice date, is as follows:

	<b>As at 30 June 2007 (Unaudited) HK\$'000</b>	<b>As at 31 December 2006 (Audited) HK\$'000</b>
0 – 60 days	<b>6,321</b>	14,081
61 – 90 days	<b>5,625</b>	1,713
91 – 180 days	<b>4,561</b>	2,111
Over 180 days	–	446
	<b>16,507</b>	18,351

Trade payables are non-interest bearing and the Directors considered that the carrying values of trade payables approximate their fair values.

**12. Other payables and accrued liabilities**

	<b>As at 30 June 2007 HK\$'000 (Unaudited)</b>	As at 31 December 2006 HK\$'000 (Audited)
Other payables	<b>3,097</b>	538
Accruals	<b>922</b>	2,733
	<b>4,019</b>	3,271

Other payables and accrued liabilities are non-interest-bearing and the Directors considered that the carrying value of accrued liabilities and other payables approximate their fair values.

**13. Share capital***Ordinary shares*

	<b>Par value HK\$</b>	<b>Number of shares '000</b>	<b>Share capital HK\$'000</b>
<b>Authorised:</b>			
At 31 December 2006	0.02	25,000,000	500,000
At 1 January 2007	0.02	25,000,000	500,000
Share subdivision ( <i>note i</i> )	0.004	100,000,000	–
At 30 June 2007	0.004	125,000,000	500,000
<b>Issued and fully paid:</b>			
At 31 December 2006	0.02	100,280	2,005
At 1 January 2007	0.02	100,280	2,005
Share subdivision ( <i>note i</i> )	0.004	401,120	–
Subscription of shares ( <i>note ii</i> )	0.004	100,000	400
At 30 June 2007	0.004	601,400	2,405

- (i) Pursuant to an ordinary resolution passed in the special general meeting held on 26 January 2007, each of the existing issued and unissued shares of the Company of HK\$0.02 each was divided into five subdivided shares of HK\$0.004 each.
  
- (ii) The Company and a substantial shareholder of the Company, True Allied Assets Limited (the "Vendor"), entered into a placing and subscription agreement dated 31 January 2007 with Guotai Junan Securities (Hong Kong) Limited (the "Placing Agent") pursuant to which (i) the Placing Agent would on a fully underwritten basis procure purchasers to acquire, and the Vendor would sell 100,000,000 then existing shares of the Company at a price of HK\$1.08 per share; and (ii) the Vendor has conditionally agreed to subscribe for such number of new shares equivalent to the number of shares placed, i.e. 100,000,000 new shares at a subscription price of HK\$1.08 each per share.

The placing of then existing 100,000,000 shares to not less than six professional investors was completed on 6 February 2007 at a placing price of HK\$1.08 per share. The subscription of 100,000,000 new shares by the Vendor was completed on 12 February 2007 at a subscription price of HK\$1.08 each. The Company received net proceeds from the subscription of approximately HK\$105,000,000 for the purpose of increasing the general working capital.

## MANAGEMENT DISCUSSION AND ANALYSIS

### Overall Financial and Business Review and Future Prospect

For the six months ended 30 June 2007, the Group's turnover amounted to approximately HK\$164,649,000 (six months ended 30 June 2006: approximately HK\$60,648,000) while the net profit attributable to the shareholders amounted to approximately HK\$44,275,000 (six months ended 30 June 2006: net profit of approximately HK\$15,430,000). The improvement in turnover was mainly the result of the acquisition of seven solid wood production lines in February 2007. The production capacity of solid wood furniture has been strengthened further.

Growing recognition of the solid wood furniture in the PRC and continuous growth in overseas orders led to further improvement in sales.

By the end of February 2007, the Group has completed acquisition of 7 solid wood furniture production lines ("Production Lines") of Lang Fang Huari Furniture Joint Stock Co., Ltd\* (廊坊華日家具股份有限公司) ("Huari Furniture"), 2 of which were rented under operating lease in 2006. As the 5 new Production Lines were merged into the Group in March 2007, the Group's turnover increased significantly in the second quarter. The management is confident that the business growth of the Group will continue in the second half of the year and the financial results of this year will have substantial improvements over the last year.

In expanding the business, the Group has endeavoured to undergo diversification and on the basis of the existing production of solid wood furniture, the Group aims to develop into a comprehensive enterprise providing a blend of production and retailing services. To expand the retailing business of the Group and leveraged on the experience in successful acquisition of retailing business in April this year (details have been disclosed in the paragraphs headed "Acquisition of Retail Business" below), the Group has taken active actions in exploring business opportunities and is expecting to undergo large scale acquisition of retailing business in the second half of the year. In actively exploring and undergoing large scale acquisitions of retailing business, the Group will be committed to become an enterprise with comprehensive services. It is expected that the Group's business will be contributed by production and retailing services in equal proportion within 3 years.

In order to further expand the business, the Group also endeavours to develop the PRC market and has actively sought for the opportunities to acquire other brands. Along with the expansion of production capacity of the Group, the Group's target to diversify brands and sales networks will become attainable.



## Liquidity and Financial Resources

All the Group's funding and treasury activities are currently managed and controlled by the senior management. There is no significant change in respect of treasury and financing policies from the information disclosed in the Group's latest annual report.

As at 30 June 2007, cash and bank balances of the Group was approximately HK\$25,031,000.

Total borrowing of the Group as at 30 June 2007 amounted to approximately HK\$19,000 (as at 30 June 2006: approximately HK\$32,000), representing obligation under a finance lease contract with an interest rate of approximately 4.5% per annum and average lease term of approximately five years. Except for the finance lease contract for the Group's office equipment and the Fidelity Funds of approximately HK\$3,000,000 which has been placed in The Hongkong and Shanghai Banking Corporation Limited ("HSBC") as security for the banking facility granted by HSBC (details have been disclosed in the paragraphs headed "Banking Facilities" below), the Group did not have any mortgage or charge on assets as at 30 June 2007.

As at 30 June 2007, the Group's gearing ratio was approximately 0.002%, representing a percentage of long term liabilities over total assets (as at 30 June 2006: approximately 0.043%).

## Banking Facilities

As at 30 June 2007, the Group had available banking facilities from HSBC for an aggregate amount of HK\$2,600,000 (30 June 2006: Nil). Unused facilities as at 30 June 2007 amounted to HK\$2,600,000 (30 June 2006: Nil). These facilities were secured by the Group's Fidelity Funds of approximately HK\$3,000,000 (as at 30 June 2007, the market value of the Fidelity Funds held was approximately HK\$2,845,000) placed in HSBC. Save as disclosed herein, the Group had no other bank borrowings or banking facilities.

## Employees Information

During the period, the Group had an average number of employees of 245 (six months ended 30 June 2006: 400). They were remunerated in accordance with their performance and market condition. Other benefits available to eligible employees include retirement benefits and medical insurance schemes.

In addition, from 1 April 2007 onwards, the Group hired an average monthly number of 1,584 workers through the labour service contracts signed by Langfang Huari Hengyu Home Co., Ltd\* (廊坊華日恒宇家居有限公司) ("Langfang Hengyu") and Lang Fang Tian Feng Home Co., Ltd\* (廊坊天豐家居有限公司) ("Tian Feng") with Huari Furniture respectively. The average monthly number of workers hired by Langfang Hengyu and Tian Feng were 1,505 and 79 respectively. The monthly labour service payment to be made by the Group is calculated on the basis of 6.5% over the value of the finished goods warehoused each month. From April 2007 onwards, the average monthly labour service payment made by Langfang Hengyu and Tian Feng was approximately RMB1,400,000 and approximately RMB102,500 respectively. The workers hired through the labour service contracts did not enjoy the benefits available to the eligible employees of the Group.

## Share Option Scheme

Pursuant to the share option scheme adopted by the shareholders of the Company on 24 May 2002 (the "Share Option Scheme"), the Board may for a consideration of HK\$1.00 offer to selected eligible persons (as defined in the circular of the Company dated 6 May 2002) to subscribe for shares of the Company as incentive or rewards for their contribution to the Group. The subscription price will be determined by the Board in its absolute discretion, in any event, shall not be less than the higher of the nominal value for the time being of each share of the Company, the average closing price of the shares of the Company as stated in the Stock Exchange's daily quotations sheets for the five business days immediately preceding the date on which the relevant option is granted and the closing price of the shares of the Company as stated in the Stock Exchange's daily quotation sheet on the date on which the relevant option is granted.

The maximum number of shares in respect of which options may be granted under the Share Option Scheme and other schemes of the Company may not, in aggregate, exceed 30% of the issued share capital of the Company from time to time which have been duly allotted and issued. The total number of shares issued and to be issued upon exercise of the options granted (including both exercised and outstanding options) in any 12-month period to each eligible person shall not exceed 1% of the shares in issue. If any further grant of options to such eligible person which would result in the shares issued or to be issued upon exercise of all options granted or to be granted to such eligible person (including exercised, cancelled and outstanding options) in the 12-month period up to and including the date of further grant would exceed 1% of the shares in issue, such grant must be separately approved by shareholders in general meeting, with such eligible person and its associates abstaining from voting. A shareholders' circular containing the information required by the GEM Listing Rules shall be despatched to the shareholders. An option may be exercised in whole or in part at any time during the Option Period (as defined in the circular of the Company dated 6 May 2002).

The Share Option Scheme became effective for a period of 10 years commencing 24 May 2002 (the date on which the Share Option Scheme was adopted).

The details and major provisions of the Share Option Scheme were set out in the circular of the Company dated 6 May 2002.

No options under the Share Option Scheme had been granted to any persons during the period under review and up to the date of this report.

As at 30 June 2007, there were no outstanding options granted under the Share Option Scheme.

### Directors' Rights to Acquire Shares or Debentures

Other than the new share option scheme adopted on 24 May 2002, at no time during the period was the Company or any of its subsidiaries a party to any arrangement to enable the Directors to acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate.

As at 30 June 2007, none of the Directors or chief executives of the Company held any share options.

### Code of Conduct Regarding Securities Transactions By Directors

During the six months ended 30 June 2007, the Company had adopted a code of conduct regarding securities transactions by directors on terms no less exacting than the required standard of dealings as set out in Rules 5.48 to 5.67 of the GEM Listing Rules. The Company also had made specific enquiry of all Directors and the Company was not aware of any non-compliance with the required standard of dealings and its code of conduct regarding securities transactions by directors.

## Disclosure of Interest as per Registers Kept Pursuant to The Securities Futures Ordinance ("The SFO")

### (a) Directors' and chief executives' interests and short positions in shares, underlying shares and debentures

As at 30 June 2007, the interests and short positions of the Directors and chief executives of the Company in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) which are required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 & 8 of Part XV of the SFO (including interests and short positions which they are taken or deemed to have under such provisions of the SFO) or which are required pursuant to Section 352 of the SFO to be entered in the register referred to therein, or as otherwise notified to the Company and the Stock Exchange pursuant to the required standard of dealings by directors as referred to in Rules 5.48 to 5.67 of the GEM Listing Rules were as follows:

*Long positions in ordinary shares of HK\$0.004 each of the Company*

Name of director	Number of shares held, capacity and nature of interest				Total	Approximate percentage of the Company's total issued share capital
	Directly beneficially owned	Through spouse or minor children	Through controlled corporation	Beneficiary of a trust		
Mr. Li Ge	18,030,000	-	-	-	18,030,000	3%

Save as disclosed above, as at 30 June 2007, none of the Directors and chief executives of the Company was, under Divisions 7 & 8 of Part XV of the SFO, taken to be interested or deemed to have any other interests or short positions in the shares, underlying shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) that were required to be entered into the register kept by the Company pursuant to Section 352 of the SFO or were required to be notified to the Company and the Stock Exchange pursuant to the GEM Listing Rules.

(b) **Substantial shareholders' and other persons' interests and short positions in shares and underlying shares**

So far as were known to the Directors or chief executives of the Company, as at 30 June 2007, the following persons (other than the Directors and chief executives of the Company as disclosed above) had interests and/or short position of 5% or more of the shares and underlying shares of the Company as recorded in the register of interests required to be kept by the Company pursuant to Section 336 of the SFO:

*Long positions in ordinary shares of HK\$0.004 each of the Company*

<b>Name</b>	<b>Nature and capacity of interest</b>	<b>Number of shares held</b>	<b>Approximate percentage of interest</b> <i>(Note 1)</i>
True Allied Assets Limited	Beneficial owner	141,651,500	23.55%
Ms. HUANG Ye-hua <i>(Note 2)</i>	Interest of controlled corporation	141,651,500	23.55%
Mr. Zhou Xu En	Beneficial owner	54,541,215	9.07%
Citigroup Inc.	Person having a security interest in shares	36,060,000	6.00%
Sino Hope Investments Limited	Beneficial owner	34,976,665	5.82%
Mr. Zhao Jiangong <i>(Note 3)</i>	Interest of controlled corporation	34,976,665	5.82%
INVESCO Hong Kong Limited	Investment manager	30,500,000	5.07%
Fair China Focus Fund Limited	Beneficial owner	30,388,000	5.05%
Fair Investment Management Limited <i>(Note 4)</i>	Interest of controlled corporation	30,388,000	5.05%
Mr. Lau Tak Chuen, Airy <i>(Note 5)</i>	Interest of controlled corporation	30,388,000	5.05%

*Note:*

- (1) The percentage is calculated by dividing the number of shares interested or deemed to be interested by the existing 601,399,985 issued shares as at 30 June 2007.
- (2) Ms. HUANG Ye-hua is interested by virtue of her 100% beneficial interest in True Allied Assets Limited.
- (3) Mr. Zhao Jiangong is interested by virtue of his 100% beneficial interest in Sino Hope Investments Limited.
- (4) Fair Investment Management Limited is interested by virtue of its 100% beneficial interest in Fair China Focus Fund Limited.
- (5) Mr. Lau Tak Chuen Airy is interested by virtue of his 100% beneficial interest in Fair Investment Management Limited.

Save as disclosed above, as at 30 June 2007, the Board is not aware of any other persons, other than the Directors and chief executives of the Company, whose interests are set out in the section headed "Directors' and chief executives' interests and short positions in shares, underlying shares and debentures" above, had interests or short position in the shares or underlying shares of the Company that was required to be recorded pursuant to Section 336 to the SFO.

## Share Subdivision

By an ordinary resolution approved at the special general meeting held on 26 January 2007, each of the issued and unissued shares of HK\$0.02 each in the share capital of the Company was subdivided into five (5) subdivided shares of HK\$0.004 each. Immediately before the share subdivision, the authorised share capital of the Company was HK\$500,000,000, which was divided into 25,000,000,000 shares of which 100,279,997 shares were in issue. Immediately after the share subdivision, the authorised share capital of the Company was HK\$500,000,000 divided into 125,000,000,000 subdivided shares of which 501,399,985 subdivided shares were in issue.

## Placing and Subscription of New Shares

The Company and a substantial shareholder of the Company, True Allied Assets Limited (the "Vendor"), entered into a placing and subscription agreement dated 31 January 2007 with Guotai Junan Securities (Hong Kong) Limited (the "Placing Agent"), pursuant to which

(i) the Placing Agent would on a fully underwritten basis procure purchasers to acquire, and the Vendor would sell 100,000,000 then existing shares of the Company at a price of HK\$1.08 per share; and (ii) the Vendor conditionally agreed to subscribe for such number of new shares equivalent to the number of shares placed, i.e. 100,000,000 new shares at a subscription price of HK\$1.08 each per share.

The placing of then existing 100,000,000 shares to not less than six professional investors was completed on 6 February 2007 at a placing price of HK\$1.08 per share. The subscription of 100,000,000 new shares by the Vendor was completed on 12 February 2007 at a subscription price of HK\$1.08 each. The Company received net proceeds from the subscription of approximately HK\$105,000,000 for the purpose of increasing the general working capital.

## Letters of Intent

On 31 January 2007, Langfang Hengyu, an indirect wholly-owned subsidiary of the Company (i) entered into a letter of intent with Beijing Glory Investment Co., Ltd\* (北京錦繡投資有限公司) ("Beijing Glory"), setting out the basic understanding between the parties thereto in connection with proposed acquisition by Langfang Hengyu of the furniture retail business of Beijing Glory in Beijing City ("Beijing LOI"); and (ii) entered into another letter of intent with Huari Furniture setting out the basic understanding between the parties thereto in connection with the proposed acquisition by Langfang Hengyu of the furniture retail business of Huari Furniture in the Hebei Province ("Langfang LOI").

The letters of intent do not constitute the relevant parties' legally binding commitments as to the proposed acquisitions, which are subject to the execution and completion of formal sale and purchase agreements by the relevant parties. However, the letters of intent constitute legally binding obligation on the part of Beijing Glory and Huari Furniture in favour of Langfang Hengyu under which, inter alia, Beijing Glory and Huari Furniture may not contact, negotiate, discuss, consider or enter into contract, whether directly or indirectly with, any third party (other than the professional advisers of themselves and Langfang Hengyu) in relation to the proposed acquisitions within six months from the date of the letters of intent (subject to extension by agreement of the relevant parties in writing).

On 29 March 2007, Langfang Hengyu has entered into a formal sale and purchase agreement with Huari Furniture in respect of the matters contemplated by the Langfang LOI. For details, please refer to the paragraphs headed "Acquisition of Retail Business" below.



As at the date of this report, the terms of the proposed acquisitions in respect of the matters contemplated by the Beijing LOI are still under negotiation and no formal sale and purchase agreement has been concluded yet. The proposed acquisition in respect of the Beijing LOI, if materialize, may or may not constitute notifiable transactions of the Company under Chapter 19 of the GEM Listing Rules and the Company shall comply with the relevant disclosures and/or shareholders' approval requirements of the GEM Listing Rules where appropriate. The proposed acquisition in respect of the Beijing LOI may or may not materialize.

## Acquisition of Retail Business

Langfang Hengyu entered into a formal sale and purchase agreement with Huari Furniture on 29 March 2007, pursuant to which, Langfang Hengyu agreed to acquire all the furniture assets and retail business excluding all the liabilities in Lang Fang Huari Furniture International Exhibition Center (Hall A)\* (廊坊華日家具國際展覽中心(A館)) in Hebei Province which is owned and operated by Huari Furniture as at 1 April 2007 (including but not limited to all the contracts, agreements or undertakings signed with any independent third parties and all the rights and benefits derived from them), including the stocks, the renovation in progress and the furniture retail business of Huari Furniture (the "Furniture Retail Business"). The consideration of the acquisition (subject to adjustment) equaled to the audited net profit of the Furniture Retail Business for the twelve months ending 31 March 2008 (the "Audited Net Profit") multiplied by a price-to-earnings ratio of 3 times in the event that the Audited Net Profit is less than RMB10,000,000, or 4 times in the event that the Audited Net Profit is more than or equals to RMB10,000,000 but less than or equals to RMB15,000,000, or 4.9 times in the event that the Audited Net Profit exceeds RMB15,000,000. In the event that the Audited Net Profit exceeds RMB20,000,000, the maximum amount of the consideration payable will equal to RMB20,000,000 multiplied by a price-to-earnings ratio of 4.9 times, that is RMB98,000,000. In any event, the minimum consideration of the Furniture Retail Business shall equal to the net asset value of the Furniture Retail Business as at 22 March 2007 as reported in the asset valuation report for the Furniture Retail Business adopting 22 March 2007 as the reference date and issued by Beijing Chong Tai Hua Heng Assets Valuation Company Limited\* (北京中泰華恒資產評估有限公司), a qualified valuer under the laws and regulations of the PRC and agreed by Langfang Hengyu and Huari Furniture.

Completion of the acquisition of the Furniture Retail Business took place on 2 April 2007.

For further details, please refer to the Company's announcement dated 3 April 2007 and circular dated 24 April 2007.



## Charge on Group's Assets

Save as the finance lease contract for the Group's office equipment and the Fidelity Funds of approximately HK\$3,000,000 which has been placed in HSBC as security for the banking facility granted by HSBC (details have been disclosed in the paragraph headed "Banking Facilities" above), the Group did not have any other charge on its assets as at 30 June 2007.

## Foreign Currency Risk

As most of the Group's monetary assets and liabilities were denominated in Renminbi and Hong Kong dollars, the exchange rate risks of the Group were considered to be minimal. As at 30 June 2007, no related hedges were made by the Group.

## Contingent Liabilities

On 2 March 2000, an independent third party executed a Deed of Guarantee in favour of Sun-iOMS Maintenance Limited, a former indirect wholly-owned subsidiary disposed of by the Group on 27 July 2006, guaranteeing that the income accrued to Sun-iOMS Maintenance Limited arising from sales of iOMS Millennium Edition Software for a period of 18 months from the date of the guarantee would not be less than HK\$15,000,000. However, the aforesaid independent third party has not fulfilled his commitment under the Deed of Guarantee. Hence, Sun-iOMS Maintenance Limited and the Company took legal action against the abovementioned independent third party and the two executive directors resigned in 2001 ("Ex-executive Directors") in respect of the breach of the Deed of Guarantee and their fiduciary duties accordingly. As at the date of this report, the legal actions against the abovementioned independent third party has been set down for trial and the Company has reached an out of court settlement with the Ex-executive Directors (the "Settlement") on 20 July 2007. In the opinion of the Directors, the financial effect of the Settlement can be ascertained only when the amount to be paid to the Ex-executive Directors, being their legal costs, pursuant to the Settlement is agreed with the Ex-executive Directors. In the opinion of the Company's special legal advisors in respect of the above litigation, as the matter now stands, there is no other damage suffered on the Group's part save as the legal costs to be taxed if not agreed pursuant to the Settlement. In the opinion of the Directors, no provision for the Group's exposure to the above litigation will be made as at 30 June 2007.

Save as disclosed above, the Group and the Company had no other contingent liabilities at the balance sheet date.

## Audit Committee

The Company has established an audit committee in July 2000 with its written terms of reference pursuant to Rules 5.28 to 5.33 of the GEM Listing Rules. Approved by the then directors attending the Board meeting held on 7 December 2006, the terms of reference set out in "A Guide for Effective Audit Committees", published by HKICPA in February 2002, were adopted as written terms of reference for the audit committee of the Company. As at 30 June 2007, the audit committee comprised three members, namely Mr. LEE Yuen Kwong, Mr. YANG Dongli and Mr. YANG Jie, being independent non-executive Directors of the Company.

The primary duties of the audit committee are to review and supervise the financial reporting process and internal control systems of the Group and to provide advice and comments to the Board. The audit committee has reviewed the Group's interim results announcements and reports for the six months ended 30 June 2007 and provided advice and recommendations to the Board. After the review of the financial statements, the members of the audit committee were of the opinion that such statements comply with the applicable accounting standards, the GEM Listing Rules and other applicable laws and regulations and that adequate disclosure had been made.

## Corporate Governance Practices

Mr. Li Ge ("Mr. Li") assumes the roles of both the chairman and the chief executive officer of the Company. While serving as the chairman of the Group, Mr. Li leads the Board and is responsible for the proceedings and workings of the Board. He ensures that:

- the Board acts in the best interests of the Group; and
- the Board functions effectively, and that all key and appropriate issues are properly briefed to and discussed by the Board.

The Group deviates from Code Provision A.2.1 in the Code on Corporate Governance Practices (the “CG Code”) set out in Appendix 15 to the GEM Listing Rules. The roles of chairman and chief executive officer of the Group rests on the same individual without having a clear division of responsibilities. However, the Board is of the view that, such non-compliance does not compromise accountability and independent decision making for the following reasons:

- the three independent non-executive Directors form the majority of the five-member Board;
- the Audit Committee is composed exclusively of independent non-executive Directors; and
- the independent non-executive Directors could have free and direct access to the Company’s external auditors and independent professional advice whenever necessary.

Mr. Li has considerable experience in the industry. He is dedicated to contribute to the growth and profitability of the Group. The Board is of the view that it is in the best interests of the Group to have an executive chairman, so that the Board can have the benefit of a chairman who is knowledgeable about the business of the Group and is most capable to guide discussions and brief the Board in a timely manner on pertinent issues and their progress, for the purpose of facilitating open dialogue between the Board and the management.

In order to comply with the CG Code, the Company is now seeking for proper candidate to serve as the chief executive officer of the Company.

Save as disclosed above, for the six months ended 30 June 2007, the Company complied with the code provisions of the CG Code.

## Purchases, Sale or Redemption of the Company’s Listed Securities

For the six months ended 30 June 2007, there was no purchase, sale or redemption by the Company, or any of its subsidiaries, of the Company’s listed securities.

## Competing Interest

None of the Directors or the management shareholders of the Company (as defined in the GEM Listing Rules) or their respective associates had any interest in any business which competed or might compete with the business of the Group for the six months ended 30 June 2007.

## Re-election of Directors

At the annual general meeting of the Company held on 27 April 2007, all the incumbent Directors were re-elected as Directors by the shareholders of the Company.

By Order of the Board  
**FAVA International Holdings Limited**  
**Li Ge**  
*Executive Director*

Hong Kong, 10 August 2007

*As at the date of this report, the Board comprises of Mr. LI Ge and Mr. ZHAO Guo Wei as executive Directors and Mr. LEE Yuen Kwong, Mr. YANG Dongli and Mr. YANG Jie as independent non-executive Directors.*

\* *For identification purpose only*

