

FAVA INTERNATIONAL HOLDINGS LIMITED

名家國際控股有限公司*

(Incorporated in Bermuda with limited liability)

(Stock Code : 8108)

INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2008

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This announcement, 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 announcement 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 announcement misleading; and 3. 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.

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 2008 together with the comparative figures.

CONSOLIDATED INCOME STATEMENT (UNAUDITED)

For the three months and six months ended 30 June 2008

		Three months ended 30 June		Six months ended 30 June	
		2008	2007	2008	2007
	Notes	HK\$'000	HK\$'000	HK\$'000	HK\$'000
			(Restated)		(Restated)
Turnover	2	161,601	105,993	266,143	164,649
Cost of sales		(106,936)	(71,141)	(177,770)	(109,906)
Gross profit		54,665	34,852	88,373	54,743
Other revenue		493	104	737	324
Sales and marketing expenses		(3,786)	–	(10,800)	–
Operating expenses		(5,744)	–	(5,775)	–
Administrative expenses		(5,661)	(1,976)	(10,677)	(5,514)
Other operating expenses		(43)	(3,411)	(43)	(4,059)
Profit from operations		39,924	29,569	61,815	45,494
Finance costs		(48)	(82)	(175)	(366)
Net unrealised holding loss on other investments in unit trust		–	(153)	–	(153)
Profit before taxation		39,876	29,334	61,640	44,975
Taxation	3	–	(4)	–	(700)
Net profit for the period		39,876	29,330	61,640	44,275
Interim dividend	4	–	–	–	–
		HK cents	HK cents	HK cents	HK cents
Profit per share – basic	5	3.3	5.7	5.1	8.5

CONSOLIDATED BALANCE SHEET

	<i>Notes</i>	30 June 2008 HK\$'000 (Unaudited)	31 December 2007 HK\$'000 (Audited)
NON-CURRENT ASSETS			
Property, plant and equipment		77,023	76,640
Goodwill		80,247	75,108
Intangible assets		7,308	7,936
Long term prepayments		13,192	14,165
		<u>177,770</u>	<u>173,849</u>
CURRENT ASSETS			
Inventories		168,421	101,872
Trade and bills receivables	7	45,571	22,338
Prepayments, deposits and other receivables	8	120,709	76,396
Pledged bank deposits		–	2,799
Cash and bank balances		65,287	55,477
		<u>399,988</u>	<u>258,882</u>
CURRENT LIABILITIES			
Trade payables	9	32,627	19,394
Other payables and accrued liabilities		37,002	16,968
Received in advance		36,750	19,399
Tax payable		6,322	–
Consideration payable for acquisition			
– due within one year		32,099	31,556
Obligations under finance lease			
– due within one year		12	16
		<u>144,812</u>	<u>87,333</u>
NET CURRENT ASSETS		<u>255,176</u>	<u>171,549</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		432,946	345,398
NON-CURRENT LIABILITIES			
Consideration payable for acquisition			
– due after one year		48,148	43,552
Obligations under finance lease			
– due after one year		57	61
		<u>48,205</u>	<u>43,613</u>
NET ASSETS		<u>384,741</u>	<u>301,785</u>
CAPITAL AND RESERVES			
Share Capital		2,405	2,405
Reserves		382,336	299,380
		<u>384,741</u>	<u>301,785</u>

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (UNAUDITED)

	Share Capital <i>HK\$'000</i>	Share Premium <i>HK\$'000</i>	Contributed Surplus <i>HK\$'000</i>	Accumulated (Losses)/ Profits <i>HK\$'000</i>	Exchange Reserve <i>HK\$'000</i>	Statutory Reserves <i>HK\$'000</i>	Total <i>HK\$'000</i>
<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 of new shares, net of expenses	-	104,511	-	-	-	-	104,511
Exchange difference 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	<u>2,405</u>	<u>151,778</u>	<u>36,000</u>	<u>13,671</u>	<u>5,490</u>	<u>7,388</u>	<u>216,732</u>
<i>For the six months ended 30 June 2008</i>							
At 1 January 2008	2,405	151,778	36,000	69,103	16,720	25,779	301,785
Exchange differences arising from translation of financial statements of subsidiaries	-	-	-	-	21,316	-	21,316
Net profit for the six months ended 30 June 2008	-	-	-	61,640	-	-	61,640
At 30 June 2008	<u>2,405</u>	<u>151,778</u>	<u>36,000</u>	<u>130,743</u>	<u>38,036</u>	<u>25,779</u>	<u>384,741</u>

CONDENSED CONSOLIDATED CASH FLOW STATEMENT (UNAUDITED)*For the six months ended 30 June*

	<i>HK\$'000</i>	<i>HK\$'000</i>
NET CASH INFLOWS FROM		
OPERATING ACTIVITIES	10,555	716
NET CASH USED IN INVESTING ACTIVITIES	(3,544)	(178,816)
NET CASH INFLOWS FROM FINANCING ACTIVITIES	<u> -</u>	<u>201,420</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	7,011	23,320
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE PERIOD	<u>58,276</u>	<u>1,711</u>
CASH AND CASH EQUIVALENTS AT END OF THE PERIOD	<u>65,287</u>	<u>25,031</u>
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS		
Cash and bank balances	<u>65,287</u>	<u>25,031</u>

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 2008 are consistent with those adopted in the annual report of the Company for the year ended 31 December 2007.

2. TURNOVER

The Group's turnover represents the income received from the net invoiced value of household products manufactured and sold, 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	
	2008 HK\$'000	2007 HK\$'000	2008 HK\$'000	2007 HK\$'000
Manufacture and sales of household products	<u>161,601</u>	<u>105,993</u>	<u>266,143</u>	<u>164,649</u>

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 2008 (six months ended 30 June 2007: 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 ("Preferential Tax Treatments") including full exemption from EIT for the initial two years starting from its first profit-making year following by a 50% reduction for the next consecutive three years, and 2007 is its first profit-making year. The other PRC subsidiary of the Group, Lang Fang Tian Feng Home Co., Ltd* (廊坊天豐家居有限公司) is also entitled to Preferential Tax Treatments, 2005 was its first profit making year, no EIT charge for the six months ended 30 June 2008 (six months ended 30 June 2007: approximately HK\$700,000).

There was no significant unprovided deferred taxation for the six months ended 30 June 2008 (six months ended 30 June 2007: Nil).

Deferred tax had not been provided as there were no significant temporary differences at the period-end date (2007: Nil).

4. INTERIM DIVIDEND

No interim dividend has been paid or declared by the Company for the six months ended 30 June 2008 (six months ended 30 June 2007: 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 2008 of approximately HK\$61,640,000 (six months ended 30 June 2007: net profit of approximately HK\$44,275,000), and the weighted average of 1,202,799,970 ordinary shares (six months ended 30 June 2007: 518,906,285 ordinary shares) in issue during the six months ended 30 June 2008. The basic profit per share for the six months ended 30 June 2007 is adjusted accordingly.

Diluted profit per share for the six months ended 30 June 2008 and 2007 have not been disclosed as no diluting events existed during that period.

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.

The Group's operating businesses are structured and managed separately, according to the nature of their operations and the products and services they provide. Each of the Group's business segments represents a strategic business unit that offers products and services that are subject to risks and returns which are different from those of the other business segments. Summary details of the business segments are as follows:

- (i) Indirect retail of household products and others; and
- (ii) Direct retail of household products.

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 mainly comprise financial and corporate assets, tax balances and corporate and financing expenses.

(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 2008 and 2007.

	Direct retail of household products		Indirect retail of household products and others		Total	
	2008	2007	2008	2007	2008	2007
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Segment revenue						
Sales to external customers	<u>43,934</u>	<u>3,062</u>	<u>222,209</u>	<u>161,587</u>	<u>266,143</u>	<u>164,649</u>
Segment results	<u>19,591</u>	<u>1,641</u>	<u>68,782</u>	<u>53,102</u>	<u>88,373</u>	<u>54,743</u>
Interest income and unallocated corporate revenue					737	324
Corporate and other unallocated expenses					(27,295)	(10,092)
Finance costs					(175)	—
Profit before taxation					61,640	44,975
Taxation					—	(700)
Net profit for the period					<u>61,640</u>	<u>44,275</u>

	Direct retail of household products		Indirect retail of household products and others		Total	
	2008	2007	2008	2007	2008	2007
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Assets and liabilities						
Segment assets	<u>40,080</u>	<u>4,271</u>	<u>537,234</u>	<u>239,254</u>	<u>577,314</u>	<u>243,525</u>
Corporate and other unallocated assets					<u>444</u>	<u>461</u>
Total assets					<u>577,758</u>	<u>243,986</u>
Segment liabilities	<u>32,171</u>	<u>3,282</u>	<u>157,470</u>	<u>23,562</u>	<u>189,641</u>	<u>26,844</u>
Corporate and other unallocated liabilities					<u>3,376</u>	<u>410</u>
Total liabilities					<u>193,017</u>	<u>27,254</u>

	Direct retail of household products		Indirect retail of household products and others		Unallocated		Total	
	2008	2007	2008	2007	2008	2007	2008	2007
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)

Other segment information

Depreciation	851	-	9,098	6,246	-	-	9,949	6,246
Amortization of intangible assets	-	-	500	-	-	-	500	-
Capital expenditure	175	-	1,483	77,861	27	-	1,685	77,861

(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.

	Direct retail of household products		Indirect retail of household products and others		Total	
	2008	2007	2008	2007	2008	2007
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)

Sales

The PRC	43,934	3,062	217,647	139,737	261,581	142,799
USA	-	-	974	7,011	974	7,011
European Union	-	-	2,967	14,380	2,967	14,380
Others	-	-	621	459	621	459
	<u>43,934</u>	<u>3,062</u>	<u>222,209</u>	<u>161,587</u>	<u>266,143</u>	<u>164,649</u>

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

7. TRADE AND BILLS RECEIVABLES

The Group generally allows a credit period from one month to two months. However, for certain customers with long-established relationship and good payment histories, a longer credit period may be granted.

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:

	30 June As at 30 June 2008 <i>HK\$'000</i> <i>(Unaudited)</i>	31 December As at 31 December 2007 <i>HK\$'000</i> <i>(Audited)</i>
0 – 60 days	31,453	18,027
61 – 90 days	4,226	1,320
91 – 180 days	6,934	967
Over 180 days	2,958	2,024
	<u>45,571</u>	<u>22,338</u>

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

8. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	As at 30 June 2008 <i>HK\$'000</i> <i>(Unaudited)</i>	As at 31 December 2007 <i>HK\$'000</i> <i>(Audited)</i>
Prepayments	62,685	70,495
Deposits and other receivables	<u>58,024</u>	<u>5,902</u>
	120,709	76,397
Less: Provision for impairment of other receivables	<u>–</u>	<u>(1)</u>
	<u>120,709</u>	<u>76,396</u>

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.

9. TRADE PAYABLES

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

	As at 30 June 2008 <i>HK\$'000</i> (Unaudited)	As at 31 December 2007 <i>HK\$'000</i> (Audited)
0 – 60 days	20,861	13,029
61 – 90 days	3,656	1,434
91 – 180 days	5,068	4,181
Over 180 days	3,042	750
	<u>32,627</u>	<u>19,394</u>

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

MANAGEMENT DISCUSSION AND ANALYSIS

Financial and Business Review

In the first half of 2008, the PRC was hit by a rare snowstorm and later the Sichuan earthquake in May. The disasters have dampened the pace of the PRC's economic growth and posed an array of challenges to enterprises in Mainland China. However, thanks to the Group's possession of an extensive retail network covering a total of more than 160 cities in the PRC, the impact of the Sichuan earthquake on the overall retail business was relatively limited.

The instability of the PRC's capital market in the first half of the year has to a certain extent affected the retail sector. However, the Group's Huari mid-to-high-end solid wood furniture segment is favourably positioned in the market. First of all, there are only four solid wood furniture manufacturers capable of carrying out "state-of-the-art production of economies of scale" in the PRC. Yet they are the only top four manufacturers in more than one decade, suggesting that there are very high production thresholds. Contrary to other numerous small- and medium-sized domestic-style solid wood furniture manufacturers, only these top four manufacturers employing the "state-of-the-art production of economies of scale" in their production of solid wood furniture are able to ensure product quality, and only those solid wood furniture manufacturers possessing brands of a long historical standing and a nationwide retail network comparable with Huari brand can give an assurance and confidence to Mainland consumers in terms of quality. Among these top four solid wood manufacturers, only two of them are principally committed to the development of the PRC retail sector, with Huari being one of the two. The Group's Huari brand is the market leader possessing the largest number of retail points in the PRC and a brand of the longest historical standing in the solid wood furniture sector. On the other hand, as the Mainland market is relatively diversified, it is very favourable to Huari's future expansion plan of the mid-to-high-end solid wood furniture segment, and therefore there is already an enormous space for development in the existing approximately 160 cities only.

From the analysis of the consumers in the mid-to-high-end solid wood furniture sector, since residents in the Chinese "second- and third-tier" cities are less involved in stock market and property market speculation, and there is a lack of supply of solid wood furniture in these cities and even in all parts of the PRC by manufacturers like Huari that possesses a brand of more than 15 years' historical standing, Huari's general business growth and development in these cities are particularly encouraging. The Group's major retail network largely covers "second- and third-tier" cities as the major markets, apart from Beijing and Shanghai.

With respect to the regional expansion of new markets, the Group will gain access through its franchising network to numerous "second- and third-tier" cities with robust potential purchasing power but not yet covered by the network to create demands and expand its mid-to-high-end solid wood furniture sector. Based on preliminary statistics, there are more than 2,000 prefecture-level cities with consumption potentiality. In comparison with the existing market in 160 cities, there is huge space available for the expansion of new markets in future.

Generally speaking, given the particularity, high threshold and enormous space for market expansion of the mid-to-high-end solid wood furniture sector in the PRC as well as the leading edge in terms of the style design, brand reputation, product quality and retail network of Huari solid wood furniture,

the Group was still able to sustain robust growth under such a tough environment during the first half of the year, and it is the Group's firm belief that it will be able to maintain such growth momentum in an attempt to fully capitalize on our existing leading edge in the PRC mid-to-high-end solid wood furniture sector in the next several years by accelerating the pace of market consolidation for building a strong solid wood furniture empire in the PRC.

Total turnover amounted to HK\$266,140,000 in the first half of the year, representing an increase of 62% over the corresponding period last year. During the first half of the year, the PRC franchised retail business of the Group's Huari solid wood furniture segment saw an organic increase of approximately 50% over the corresponding period last year.

The Group focuses on the Chinese domestic retail market, with approximately 95% of the turnover derived from the PRC retail-related businesses, of which the franchising business accounts for approximately 78% and the self-owned shop business takes up approximately 17%. At present, retail shops that comprise franchised shops and self-owned direct sales shops total approximately 600, covering an aggregate retail floor area of approximately 180,000 square meters. The second half of each year is the busy season most favourable for establishing new shops based on the consumption pattern in the PRC furniture sector. The Group will strive to achieve the 2008 target plan of increasing the number of shops to a total of 804 shops and the aggregate retail floor area to 240,000 square meter by the end of 2008.

During the first half of the year, total gross profit was HK\$88,370,000, representing a gross profit margin of 33%. As a result of the increased percentage of the self-owned direct sales shop business in the second quarter as well as the increased gross profit margin of the re-engineered fabric furniture of Jixiangniao (Lucky Bird) in the first quarter, the gross profit margin reached as high as 34% in the second quarter, representing an increase of 2 percentage point as compared with the 32% gross profit margin in the first quarter.

During the first half of the year, net profit was HK\$61,640,000, representing a net profit ratio of 23%. The Group increased the expenses on marketing and management so as to build up its brand image, which in turn serve to enhance its competitive edge and strengthen its leading position in the market, and therefore the net profit ratio in the first half of the year dropped 4% as compared with the corresponding period last year. As a result of the downward adjustment of expenses percentage due to the increased gross profit margin and turnover in the second quarter, the net profit ratio raised to 25% in the second quarter, representing an increase of 4 percentage points as compared with the 21% net profit ratio in the first quarter. The Group will continue to enhance the earnings level and sharpen its competitiveness.

Franchised Retail Shop Business

Huari established the franchised shop business model for mid-to-high-end solid wood furniture in the PRC 18 years ago in 1992. With a well-established and stable franchising system under this existing model, the Group enjoys the autonomy in the direct control over the end-user retail market, as well as fully utilizes and capitalizes on the advantages of franchisees in different regions.

Turnover of the Group's PRC franchising business for the Huari solid wood furniture segment amounted to HK\$193,280,000 in the first half of the year, representing an increase of approximately 40% over the corresponding period last year. 29 shops previously run under the franchising network were acquired

during the second quarter and operated as self-owned direct sales shops. If the franchising business of these shops was accounted for as well, the PRC franchising business for the Huari solid wood furniture segment would see an organic increase of approximately 50% in the first half of the year over the corresponding period last year.

At present, the number of franchised shops totals more than 470, while the aggregate retail floor area of franchised shops exceeds 140,000 square meters. Since the establishment of new shops is largely scheduled for the third and fourth quarters every year, the Group will see a considerable increase in the total number of franchised shops and aggregate floor area in the second half of the year, and will strive to achieve the target of establishing a total of 571 franchised shops covering an aggregate retail floor area of 170,000 square meters by the end of the year. With respect to the coverage of cities, the Group aims to extend the retail network to 200 cities in the PRC by the end of the year. Based on the number of more than 2,000 prefecture-level cities throughout the PRC and the number of shops that we can achieve for the Huari mid-to-high-end solid wood furniture segment, the regional expansion target to be achieved by the end of the year just takes up around 10% of the estimated potential markets. This suggests that, apart from the huge space for the development of the existing markets, the regional expansion of new markets will provide an enormous business development opportunity for the Group in future. The regional expansion of new markets in future has to rely upon new local franchisees. It is because only through our well-established franchising model that the Group can actually capitalize on the advantages of these local franchisees while minimize the need for management from the Group's marketing headquarters, facilitating the Group to leverage on business opportunities for opening up new markets more rapidly and securely.

Due to the success of the Huari franchising model, the Jixiangniao (Lucky Bird) fabric furniture business, acquired early this year, was introduced into the Group to target at the young people market. The major business model of Jixiangniao (Lucky Bird) is that:

1. The retail pricing is determined by the Group's marketing headquarters;
2. Franchised shops must sell only the products carrying the Group's brands;
3. The discount policy, boost sales campaigns, promotion, nationwide advertising and other matters for all franchised shops are directly and uniformly managed by the Group's marketing headquarters; and
4. Fitting-out works, furnishing, layout, staff training and other matters in respect of franchised shops must be organized in strict compliance with the rules of the Group's marketing headquarters.

Upon completion of the re-engineering of the retail network in the first quarter, the existing number of Jixiangniao (Lucky Bird) franchised shops has reached 100 in the PRC, covering an aggregate retail area of approximately 20,000 square meters. Turnover increased from HK\$4,730,000 in the first quarter to HK\$9,470,000 in the second quarter, representing a one-fold increase. Gross profit margin upped from 21% in the first quarter to 23% in this quarter. It is anticipated that the gross profit margin of the Jixiangniao (Lucky Bird) fabric furniture segment will rise further on the back of the progressive development of the retail network in the PRC. Although the Jixiangniao (Lucky Bird) fabric furniture business targeted at young people accounts for only around 5% of the Group's overall businesses, it plays a vital role for the Huari mid-to-high-end solid wood furniture segment in the initial exploration of access to the young people's market in future.

Self-owned Direct Sale Shop Business

Huari has a number of years of experience in the direct operation of self-owned direct sale shops in the PRC. The nine retail shops in Beijing have achieved more outstanding performance, posting an increase of more than 20% on average every year, inclusive of the first half of the year, as compared with corresponding shops. Huari officially launched the first flagship store in 2002. In addition to a well-established and reliable retail network of franchised shops, Huari also possesses substantial and extensive experience in operating and running self-owned direct sale shops in the PRC.

In the first half of the year, turnover from the self-owned direct sale shop business reached as high as HK\$43,930,000, of which HK\$20,760,000 was the turnover from the flagship store, while turnover of the direct sale shops from Huari franchised shops acquired in the second quarter of the year was HK\$23,170,000.

The Group's flagship store located in Zhengzhou, the capital city of Henan Province, officially commenced operation recently on 28 June 2008. As a result of the promotional and publicity events and trial operation carried out three weeks prior to the opening as well as the three-day opening boost sales campaign, the flagship store secured from direct consumers orders (inclusive of taxes) with a total amount of approximately HK\$10,000,000 prepaid in cash in full as at 30 June 2008. The result was encouraging. The amount of turnover will be accounted for in the middle of July upon delivery of goods. With respect to brand recognition, the flagship store in Zhengzhou has played a key role in building up the brand name of Huari in Henan Province. During the three-day opening boost sales campaign of the flagship store, the average daily volume of pedestrian flow reached up to 3,000. The Group's Zhengzhou flagship store has now become a landmark for brand-name solid wood furniture in Henan Province. Although the flagship store did not have a direct effect on the sales amount in the second quarter, it made a substantial contribution to the cash flow. After product costs were deducted, the net cash flow for the three days was sufficient to pay for the capital expenditure on external wall and interior fitting-out works required for establishing the Zhengzhou flagship store.

The Group plans to establish two to three flagship stores to be largely financed by its own funds in the second half of the year, the two major target cities are tentatively Taiyuan, the capital city of Shanxi Province and Xi'an, the capital city of Shaanxi Province. Given the acute demand for mid-to-high-end brand-name solid wood furniture and the lack of supply of suitable furniture in the "second- and third-tier cities", the Group will give priority of proposed establishment of new flagship stores to second- and third-tier cities in the next one to two years.

The Group aims to achieve a total number of four flagships covering an aggregate retail floor area of 30,000 square meters by the end of the year, and to increase the total number of flagship stores to nine covering more than an aggregate retail floor area of 60,000 square meters by the end of 2009. These flagship stores will operate based on the model of the Zhengzhou flagship store, which includes primarily the following features:

1. Focus will be placed on “second- and third-tier provincial cities” where the local Huari franchised shops have already secured a stable consumer base and the Huari brand awareness has reached a considerable extent;
2. Flagship stores will have an area of approximately 5,000 to 7,000 square meters that can accommodate in total the display of the Group’s eight major series, which include the Group’s top six Huari solid wood furniture series, Jixiangniao (Lucky Bird) fabric furniture series and single household article series. New series to be launched in future or new items of these eight series will be included as well;
3. Local franchisees introduce existing franchised shops and local resources into flagship stores for formally carrying out an overall integration of the retail network in that region; and
4. Franchisees and flagship stores will act as regional control centers of the Group’s marketing headquarters for organizing and coordinating unified marketing activities by all the franchised shops in the province so that management efficiency can be substantially enhanced and day-to-day contact with and monitoring by the Group’s marketing headquarters minimized.

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 2008, cash and bank balances of the Group was approximately HK\$65,287,000.

Total borrowing of the Group as at 30 June 2008 amounted to approximately HK\$69,000 (as at 30 June 2007: approximately HK\$19,000), representing obligation under a finance lease contract with an interest rate of approximately 5% per annum and average lease term of approximately five years.

Employees Information

As at 30 June 2008, the Group had employed 6 staffs in Hong Kong and 346 staffs in PRC (as at 30 June 2007: 5 staffs in Hong Kong and 192 staffs in PRC), they were remunerated in accordance with their performance and market condition. Other benefits available to eligible employees include retirement benefits and medical insurance schemes. Total staff costs for the six months ended 30 June 2008 amounted to approximately HK\$4,309,000 (2007: approximately HK\$3,326,000).

The Group did not experience any significant labour disputes or substantial change in the number of its employees that led to any disruption of normal business operations. The Directors consider the Group's relationship with its employees to be good.

In addition, for the six months ended 30 June 2008, the Group hired an average monthly number of 1,846 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") with Lang Fang Huari Furniture Joint Stock Co. Ltd (2007: The average monthly number of workers hired by Langfang Hengyu and Langfang Tianfeng Home Co. Ltd.* (廊坊天豐家居有限公司) ("Langfang Tianfeng") 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. For the six months ended 30 June 2008, the average monthly labour service payment made by Langfang Hengyu was approximately HK\$2,564,000. The workers hired through the labour service contracts did not enjoy the benefits available to the eligible employees of the Group (2007: The average monthly labour service payment made by Langfang Hengyu and Langfang Tianfeng was approximately HK\$1,421,000 and approximately HK\$104,000 respectively).

GEARING RATIO

As at 30 June 2008, the Group's gearing ratio was 8.3% representing a percentage of long term liabilities over total assets (as at 30 June 2007: approximately 0.002%).

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 2008, 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 2008, 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 2008, the interests and short positions of the Directors and chief executive 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\$0.002 each of the Company

Name of director	Number of shares held, capacity and nature of interest					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	36,908,000	–	–	–	36,908,000	3.06%

Save as disclosed above, as at 30 June 2008, none of the Directors and chief executive 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 executive of the Company, as at 30 June 2008, the following persons (other than the Directors and chief executive of the Company as disclosed above) had interests and/or short positions in 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 the ordinary shares of HK\$0.002 each of the Company

Name	Nature and capacity of interest	Number of shares held	Approximate percentage of interest (Note 1)
<i>Substantial Shareholders</i>			
True Allied Assets Limited	Beneficial owner	351,518,000	29.22%
Ms. HUANG Ye-hua (Note 2)	Interest of controlled corporation	351,518,000	29.22%
<i>Other Shareholders</i>			
Mr. Zhou Xu En (Note 3)	Beneficial owner	109,382,430	9.09%
	Interest of controlled corporation	106,318,182	8.83%
Lang Fang Huari Furniture Joint Stock Co., Ltd. (廊坊華日家具股份有限公司) ("Huari Furniture") (Note 3)	Beneficial owner	106,318,182	8.83%
Ms. Xiu Jun Cheng (Note 3)	Interest of controlled corporation	106,318,182	8.83%
Mr. Zhou Tian Tang (Note 3)	Interest of controlled corporation	106,318,182	8.83%
Arisaig Greater China Fund Limited (Note 4)	Beneficial owner	97,592,000	8.11%
Arisaig Partners (Mauritius) Limited (Note 4)	Investment manager	97,592,000	8.11%
Cooper Lindsay William Ernest (Note 4)	Interest of controlled corporation	97,592,000	8.11%
Citigroup Inc.	Person having a security interest in shares	73,500,000	6.11%
Deutsche Bank Aktiengesellschaft	Beneficial owner	70,456,000	5.86%
	Personal having a security interest in shares	1,712,000	0.14%

Name	Nature and capacity of interest	Number of shares held	Approximate percentage of interest (Note 1)
Sino Hope Investments Limited	Beneficial owner	69,953,330	5.82%
Mr. Zhao Jiangong (Note 5)	Interest of controlled corporation	69,953,330	5.82%
Fair China Focus Fund Limited	Beneficial owner	60,776,000	5.05%
Fair Investment Management Limited (Note 6)	Interest of controlled corporation	60,776,000	5.05%
Mr. Lau Tak Chuen, Airy (Note 7)	Interest of controlled corporation	60,776,000	5.05%

Note:

- (1) The percentage is calculated by dividing the number of shares interested or deemed to be interested by the existing 1,202,799,970 issued shares as at 30 June 2008.
- (2) Ms. Huang Ye-hua is interested by virtue of her 100% beneficial interest in True Allied Assets Limited.
- (3) The 106,318,182 Shares are the maximum number of consideration shares which may be allotted and issued to Huari Furniture or its nominee on or before 31 December 2014 pursuant to the trademarks transfer agreement dated 20 June 2008. Each of Mr. Zhou Xu En, Mr. Zhou Tian Tang and Ms. Xiu Jun Cheng is interested by virtue of their respective beneficial interest as to 48.16%, 25.93% and 23.91% in Huari Furniture. Mr. Zhou Tian Tang and Ms. Xiu Jun Cheng are parents of Mr. Zhou Xu En.
- (4) 97,592,000 Shares are held by Arisaig Greater China Fund Limited under management by Arisaig Partners (Mauritius) Limited in its capacity as an investment manager and Cooper Lindsay William Ernest is interested in the 97,592,000 Shares through its controlled corporation.
- (5) Mr. Zhao Jiangong is interested by virtue of his 100% beneficial interest in Sino Hope Investments Limited.
- (6) Fair Investment Management Limited is interested by virtue of its 100% beneficial interest in Fair China Focus Fund Limited.
- (7) 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 2008, 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 positions in the shares or underlying shares of the Company that was required to be recorded pursuant to Section 336 to the SFO.

LETTERS OF INTENT

On 7 January 2008, the Group has entered into letters of intent with Mr. Zhou Xu En, Mr. Xiu Xianliu, Mr. Cheng Pishuang, Mr. Pan Yongsheng, Mr. Wu Kemin, Mr. Pan Juncheng, Mr. Yang Yukai, Mr. Ren Kewei, Mr. Liu Qianji, Mr. Liu Lianghou and Mr. Liu Xiaodong respectively for the proposed acquisition of the furniture retail business of a total of 92 furniture retail shops owned and/or operated by the abovementioned persons in the PRC which are distributing furniture products of Huari brand. The letters of intent set out the basic understanding between the parties of the proposed acquisition. The proposed consideration is to be determined with reference to the audited net profits for the year ending 31 December 2008 of the relevant target business, multiplied by a certain price-to-earnings ratio ranging from 4 to 6 times with a cap set on the proposed consideration of each target business. For further details, please refer to the Company’s announcement dated 8 January 2008.

ACQUISITION OF CERTAIN FURNITURE RETAIL BUSINESS

Furniture Retail Business of Mr. Xiu Xianliu

On 18 February 2008, the Group and Mr. Xiu Xianliu entered into an acquisition agreement, pursuant to which the Group conditionally agreed to acquire certain furniture retail business at a consideration equal to the audited net profits of the furniture retail business for the year ending 31 March 2009 multiplied by 3 to 4 times. However, the consideration will not exceed RMB48,000,000 in any event.

The acquisition constitutes a discloseable transaction under the GEM Listing Rules. For further details, please refer to the Company’s announcement dated 19 February 2008 and circular dated 7 March 2008 respectively.

Furniture Retail Business of Mr. Zhou Xu En

On 6 June 2008, the Group and Mr. Zhou Xu En entered into an acquisition agreement, pursuant to which the Group conditionally agreed to acquire certain furniture retail business at a consideration equal to the audited net profits of the furniture retail business for the year ending 31 March 2009 multiplied by 3 to 5 times. However, the consideration will not exceed RMB35,000,000 in any event.

The acquisition constitutes a discloseable transaction under the GEM Listing Rules. For further details, please refer to the Company’s announcement dated 6 June 2008 and circular and 23 June 2008 respectively.

ACQUISITION OF TRADEMARKS

On 20 June 2008, the Group and Huari Furniture entered into a trademarks transfer agreement, pursuant to which the Group conditionally agreed to acquire (i) a trademark under the process of application with the PRC Trademarks Bureau made by Huari Furniture pending the approval of the PRC Trademarks Bureau; and (ii) 9 trademarks registered with the PRC Trademarks Bureau by Huari Furniture at a consideration equal to 10% of the audited net profit before tax of Langfang Hengyu for the year ending 31 December 2013 minus the balance of the prepaid fees as at 30 June 2008 in the amount of RMB6,440,000 paid by Langfang Tianfeng and Langfang Hengyu under the trademark licence contracts made between Huari Furniture and Langfang Hengyu and Langfang Tianfeng respectively. However, the consideration will not exceed RMB93,560,000 in any event.

So far as permitted by the applicable laws and regulations, the Group shall pay the consideration by way of allotment and issue of fully paid new Shares to Huari Furniture or its nominee on or before 31 December 2014. The number of Consideration Shares (assuming no subdivision or consolidation of Shares will take place from 26 June 2008 to the date of allotment of the consideration shares) will not exceed 106,318,182 Shares.

The acquisition constitutes a discloseable transaction under the GEM Listing Rules. For further details, please refer to the Company's announcement and circular dated 26 June 2008 and 16 July 2008 respectively.

CHARGE ON GROUP'S ASSETS

Save as the finance lease contract for the Group's office equipment, the Group did not have any other charge on its assets as at 30 June 2008 (2007: Nil).

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 2008, no related hedges were made by the Group.

CONTINGENT LIABILITIES

The Group and the Company had no 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 2008, 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 announcement and report for the six months ended 30 June 2008 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 2008, the Company complied with the code provisions of the CG Code.

SHARE OPTION SCHEME

For the six months ended 30 June 2008, no option had been granted, exercised, cancelled or lapsed under the share option scheme adopted by the shareholders of the Company on 24 May 2002 (“Share Option Scheme”). As at 30 June 2008, no outstanding option has been granted under the Share Option Scheme.

PURCHASES, SALE OR REDEMPTION OF THE COMPANY’S LISTED SECURITIES

For the six months ended 30 June 2008, 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 2008.

RE-ELECTION OF DIRECTORS

At the annual general meeting of the Company held on 30 April 2008, 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, 11 August 2008

As at the date of this announcement, 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.

This announcement will remain on the GEM website at www.hkgem.com on the “Latest Company Announcement” page for at least seven days from the day of its posting and on the website of the Company at www.fava.com.hk

* *for identification purpose only*