FAVA International Holdings Limited
名家國際控股有限公司*

(Incorporated in Bermuda with limited liability)

(Stock Code: 8108)

ANNUAL RESULTS ANNOUNCEMENT
FOR THE YEAR ENDED 31 DECEMBER 2008

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

GEM has been positioned as a market designed to accommodate companies to which a higher investment risk may be attached than other companies listed on the Stock Exchange. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration. The greater risk profile and other characteristics of GEM mean that it is a market more suited to professional and other sophisticated investors.

Given the emerging nature of companies listed on GEM, there is a risk that securities traded on GEM may be more susceptible to high market volatility than securities traded on the main board of the Stock Exchange and no assurance is given that there will be a liquid market in the securities traded on GEM.

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 GEM of the Stock Exchange (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 results 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.

* *For identification purposes only*

ANNUAL RESULTS

The board of directors (the "Board") of the Company is pleased to present the consolidated results of the Company and its subsidiaries (collectively referred to as the "Group") for the year ended 31 December 2008 together with the comparative figures for the year ended 31 December 2007 as follow:

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2008

	Notes	2008 HK$'000	2007 HK$'000
Turnover	4	**477,827**	447,814
Cost of sales		**(323,895)**	(296,060)
Gross profit		**153,932**	151,754
Other revenue	4	**3,496**	935
Other income	5	**172**	433
Impairment loss in respect of goodwill		**(11,868)**	–
Fair value changes on financial assets at fair value through profit or loss		**–**	(288)
Selling and distribution costs		**(43,521)**	(17,193)
Administrative expenses		**(35,985)**	(16,140)
Other operating expenses		**(84)**	(416)
Profit from operations	5	**66,142**	119,085
Finance costs		**(4)**	(3)
Profit before taxation		**66,138**	119,082
Taxation	6	**–**	(984)
Profit for the year		**66,138**	118,098
Profit for the year attributable to equity holders of the Company		**66,138**	118,098
Earnings per share	8		
– Basic and diluted (HK cents per share)		**5.50**	9.98

CONSOLIDATED BALANCE SHEET

As at 31 December 2008

	Notes	2008 HK$'000	2007 HK$'000
Non-current assets			
Property, plant and equipment		**121,720**	76,640
Goodwill		**64,006**	75,108
Intangible assets		**10,778**	7,936
Long term prepayments		**11,288**	14,165
		207,792	173,849
Current assets			
Inventories		**143,531**	101,872
Trade and bills receivables	*9*	**38,826**	22,338
Prepayments, deposits and other receivables		**50,539**	76,396
Pledged bank deposits		**–**	2,799
Cash and bank balances		**54,977**	55,477
		287,873	258,882
Less: Current liabilities			
Trade payables	*10*	**20,354**	19,394
Other payables and accruals		**42,531**	16,968
Receipts in advance		**44,120**	19,399
Amount due to a director		**949**	–
Consideration payable for acquisition – due within one year		**–**	31,556
Obligations under finance lease – due within one year		**16**	16
		107,970	87,333
Net current assets		**179,903**	171,549
Total assets less current liabilities		**387,695**	345,398
Less: Non-current liabilities			
Consideration payable for acquisition – due after one year		**–**	43,552
Obligations under finance lease – due after one year		**44**	61
		44	43,613
Net assets		**387,651**	301,785
Capital and reserves			
Share capital		**2,405**	2,405
Reserves		**385,246**	299,380
Total equity attributable to equity holders of the Company		**387,651**	301,785

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2008

	Attributable to equity holders of the Company						
	Share capital *HK$'000*	Share premium *HK$'000*	Contributed surplus *HK$'000*	(Accumulated loss)/ retained earnings *HK$'000*	Exchange reserve *HK$'000*	Statutory reserves *HK$'000*	Total equity *HK$'000*
At 1 January 2007	2,005	47,267	36,000	(30,604)	1,114	7,388	63,170
Exchange differences arising from translation of financial statements of subsidiaries	–	–	–	–	15,606	–	15,606
Total income for the year recognised in equity	–	–	–	–	15,606	–	15,606
Profit for the year	–	–	–	118,098	–	–	118,098
Total income and expense for the year	–	–	–	118,098	15,606	–	133,704
Transfer to statutory reserves	–	–	–	(18,391)	–	18,391	–
Premium arising from issue of new shares	–	107,600	–	–	–	–	107,600
Issue of shares	400	–	–	–	–	–	400
Share issue expenses	–	(3,089)	–	–	–	–	(3,089)
At 31 December 2007 and 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	–	–	–	–	19,728	–	19,728
Total income for the year recognised in equity	–	–	–	–	19,728	–	19,728
Profit for the year	–	–	–	66,138	–	–	66,138
Total income and expense for the year	–	–	–	66,138	19,728	–	85,866
Transfer to statutory reserves	–	–	–	(15,702)	–	15,702	–
At 31 December 2008	2,405	151,778	36,000	119,539	36,448	41,481	387,651

NOTES TO FINANCIAL STATEMENTS
For the year ended 31 December 2008

1. BASIS OF PREPARATION

These consolidated financial statements have been prepared in accordance with HKFRSs (which also include Hong Kong Accounting Standards ("HKASs") and Interpretations) issued by the HKICPA, accounting principles generally accepted in Hong Kong, the disclosure requirements of the Hong Kong Companies Ordinance and applicable disclosure provisions of the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited ("GEM Listing Rules"). These financial statements are presented in Hong Kong dollars and all values are rounded to the nearest thousand except when otherwise indicated.

These consolidated financial statements have been prepared on a basis consistent with the accounting policies adopted in the 2007 financial statements.

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")

The Hong Kong Institute of Certified Public Accountants (the "HKICPA") has issued certain new standards, amendments and interpretations to existing standards have been published that are mandatory for accounting periods beginning on or after 1 January 2008. A summary of the effect on initial adoption of these new and revised HKFRSs is set out below.

HKAS 39 & HKFRS 7 (Amendments)	Reclassification of Financial Assets
HK(IFRIC) – Int 11	HKFRS 2 – Group and Treasury Share Transactions
HK(IFRIC) – Int 12	Service Concession Arrangements
HK(IFRIC) – Int 14	HKAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction

The application of the new HKFRSs had no material effect on how the results and financial position for the current or prior accounting periods have been prepared and presented. Accordingly, no prior period adjustment has been required.

The Group has not early applied the following new and revised standards or interpretations that have been issued but are not yet effective.

HKFRSs (Amendments)	Improvements to HKFRSs[1]
HKAS 1 (Revised)	Presentation of Financial Statements[2]
HKAS 23 (Revised)	Borrowing Costs[2]
HKAS 27 (Revised)	Consolidated and Separate Financial Statements[3]
HKAS 32 & 1 (Amendments)	Puttable Financial Instruments and Obligations Arising on Liquidation[2]
HKAS 39 (Amendment)	Eligible Hedged Items[3]
HKFRS 1 (Revised)	First-time Adoption of Hong Kong Financial Reporting Standards[3]
HKFRS 1 & HKAS 27 (Amendments)	Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate[2]
HKFRS 2 (Amendment)	Vesting Conditions and Cancellations[2]
HKFRS 3 (Revised)	Business Combinations[3]
HKFRS 7 (Amendment)	Financial Instruments: Disclosures – Improving Disclosure about Financial Instruments[2]
HKFRS 8	Operating Segments[2]
HK(IFRIC) – Int 9 and HKAS 39 (Amendments)	Embedded Derivatives[7]
HK(IFRIC) – Int 13	Customer Loyalty Programmes[5]
HK(IFRIC) – Int 15	Agreements for the Construction of Real Estate[2]
HK(IFRIC) – Int 16	Hedges of a Net Investment in a Foreign Operation[6]
HK(IFRIC) – Int 17	Distributions of Non-cash Assets to Owners[3]
HK(IFRIC) – Int 18	Transfers of Assets from Customers[3]

1 Effective for annual periods beginning on or after 1 January 2009 except the amendments to HKFRS 5, effective for annual periods beginning on or after 1 July 2009
2 Effective for annual periods beginning on or after 1 January 2009
3 Effective for annual periods beginning on or after 1 July 2009
4 Effective for annual periods beginning on or after 1 January 2008
5 Effective for annual periods beginning on or after 1 July 2008
6 Effective for annual periods beginning on or after 1 October 2008
7 Effective for annual periods beginning on or after 30 June 2009

The application of HKFRS 3 (Revised) may affect the accounting for business combination for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 July 2009. HKAS 27 (Revised) will affect the accounting treatment for changes in the parent's ownership interest in a subsidiary.

The directors of the Company anticipate that the application of these new and revised standards or interpretations will have no material impact on the results and the financial position of the Group.

3. 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 represent 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.

(a) Business segments

The following tables present revenue, profit and certain asset, liability and expenditure information for the Group's business segments for the years ended 31 December 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*
Segment revenue:						
Sales to external customers	**64,883**	31,845	**412,944**	415,969	**477,827**	447,814
Segment results	**5,464**	12,064	**66,336**	115,937	**71,800**	128,001
Interest income and unallocated gains					**3,668**	265
Corporate and other unallocated expenses					**(9,326)**	(9,181)
Finance costs					**(4)**	(3)
Profit before taxation					**66,138**	119,082
Taxation					**–**	(984)
Profit for the year					**66,138**	118,098
Assets and liabilities						
Segment assets	**95,307**	93,733	**396,976**	335,801	**492,283**	429,534
Corporate and other unallocated assets					**3,382**	3,197
Total assets					**495,665**	432,731
Segment liabilities	**22,906**	6,060	**83,057**	122,445	**105,963**	128,505
Corporate and other unallocated liabilities					**2,051**	2,441
Total liabilities					**108,014**	130,946

	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*
Other segment information								
Depreciation	**1,664**	1,143	**16,884**	9,794	**50**	56	**18,598**	10,993
Amortisation of intangible assets	**–**	–	**2,757**	2,054	**–**	–	**2,757**	2,054
Capital expenditure	**3,250**	3,048	**53,019**	78,043	**–**	125	**56,269**	81,216
Provision for impairment loss of goodwill	**11,868**	–	**–**	–	**–**	–	**11,868**	–
Provision for impairment loss of trade receivables	**206**	–	**7,156**	304	**–**	–	**7,362**	304
Provision for impairment loss of other receivables	**16**	–	**–**	–	**–**	–	**16**	–

(b) Geographical segments

During the year, the Group's turnover was mainly made to customers located at the PRC, USA and European Union. All assets are located in the PRC (including Hong Kong). Over 90% 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*
Sales						
The PRC	**64,883**	31,845	**403,516**	371,779	**468,399**	403,624
USA	**–**	–	**2,982**	8,791	**2,982**	8,791
European Union	**–**	–	**5,148**	34,894	**5,148**	34,894
Others	**–**	–	**1,298**	505	**1,298**	505
	64,883	31,845	**412,944**	415,969	**477,827**	447,814

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

4. TURNOVER AND OTHER REVENUE

The Group's turnover represents the net invoiced value of household products sold, after allowances for returns and trade discounts, during the year.

An analysis of the Group's turnover and other revenue is as follows:

	The Group	
	2008	2007
	HK$'000	*HK$'000*
Turnover:		
Indirect retail of household products and others	**412,944**	415,969
Direct retail of household products	**64,883**	31,845
	477,827	447,814
Other revenue:		
Bank interest income	**25**	303
Sundry income	**2,911**	632
Sales of raw materials	**560**	–
	3,496	935

5. PROFIT FROM OPERATIONS

The Group's profit from operations is arrived at after charging:

	The Group	
	2008	2007
	HK$'000	*HK$'000*
Cost of inventories sold	**323,895**	296,060
Fair value changes on financial assets at fair value through profit or loss	**–**	288
Auditors' remuneration	**500**	500
Depreciation on owned property, plant and equipment	**18,573**	10,964
Depreciation on property, plant and equipment held under finance lease	**25**	29
	18,598	10,993

	The Group	
	2008	2007
	HK$'000	*HK$'000*
Minimum lease payments under operating leases:		
Plant and machinery	**2,088**	3,968
Land and buildings	**15,722**	1,473
	17,810	5,441
Employee benefits expense (excluding directors' remuneration):		
Wages, salaries and other allowances	**36,996**	21,986
Pension scheme contributions	**904**	676
	37,900	22,662
Amortisation of intangible assets	**2,757**	2,054
Provision for impairment loss of goodwill	**11,868**	-
Provision for impairment loss of trade receivables	**7,362**	304
Provision for impairment loss of other receivables	**16**	-
Loss on disposal of property, plant and equipment	**1,179**	-

and after crediting:

Other income:		
Reversal of provision for impairment loss of trade receivables	**–**	179
Reversal of provision for legal cost	**172**	–
Exchange gain	**–**	249
Gain on disposal of property, plant and equipment	**–**	5
	172	433

6. TAXATION

No provision for Hong Kong profits tax has been made during the year as the Group has no assessable profits arising in Hong Kong (2007: Nil).

Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in places in which the Group operates, based on existing legislation, interpretations and practices in respect thereof. No provision for PRC income tax has been made during the year as the Group has tax exemption in PRC.

	The Group	
	2008	2007
	HK$'000	*HK$'000*
Current – Hong Kong	**–**	–
Current – PRC	**–**	984
Tax charge for the year	**–**	984

7. DIVIDENDS

No dividend has been declared or proposed by the directors of the Company in respect of the year ended 31 December 2008 (2007: Nil).

8. EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY

The calculations of basic earnings per share amount is based on the profit for the year attributable to the ordinary equity holders of the Company and the weighted average number of ordinary shares in issue during the year:

	2008	2007
	HK$'000	*HK$'000*
Earnings		
Profit attributable to ordinary equity holders of the Company, used in the basic earnings per share calculation	**66,138**	118,098
	'000	*'000*
Number of shares		
Weighted average number of ordinary shares in issue during the year used in the basic earnings per share calculation	**1,202,800**	1,183,074

The weighted average number of ordinary shares for the year ended 31 December 2008 is shares in issue. The weighted average number of ordinary shares for the year ended 31 December 2007 is shares in issue, as adjusted to reflect the share subdivision effective on 26 January 2007 and 12 September 2007.

There was no diluting event existed during the years ended 31 December 2008 and 2007.

9. TRADE AND BILLS RECEIVABLES

The average credit period on sales of goods is 30 to 180 days. In view of the fact that the Group's trade and bills receivables relate to a large number of diversified customers, there is no significant concentration of credit risk. Trade and bills receivables are non-interest bearing.

	The Group	
	2008	2007
	HK$'000	*HK$'000*
Trade receivables	**46,625**	21,407
Bills receivables	**–**	1,253
	46,625	22,660
Less: Provision for impairment loss of trade receivables	**(7,799)**	(322)
	38,826	22,338

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

	The Group	
	2008	2007
	HK$'000	*HK$'000*
0 – 30 days	**23,111**	11,931
31 – 60 days	**2,095**	6,096
61 – 90 days	**2,420**	1,320
91 – 180 days	**1,965**	967
Over 180 days	**9,235**	2,024
	38,826	22,338

10. TRADE PAYABLES

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

	The Group	
	2008	2007
	HK$'000	*HK$'000*
0 – 30 days	**6,126**	9,140
31 – 60 days	**2,641**	3,889
61 – 90 days	**2,362**	1,434
91 – 180 days	**4,280**	4,181
Over 180 days	**4,945**	750
	20,354	19,394

BUSINESS REVIEW

During the year, China was once hit by a rare snowstorm that affected more than 20 provinces, municipalities and autonomous regions, and the Sichuan earthquake in May. During the Olympic Games and the Paralympic Games in August and September, the traffic restrictions in Beijing and Hebei regions as well as Chinese residents' passion for the games also dampened residents' purchasing desire for furniture, which in turn hit the furniture sales market heavily. In addition, the macro economic control initiatives aimed at the real property sector during the second half of the year had mitigated, to a certain extent, the demand for furniture in "first-tier" cities and the pace of the PRC's economic growth, posing an array of challenges to enterprises in Mainland China. Though the Group's possession of an extensive retail network covering a total of more than 200 cities in the PRC to date, the overall retail business was struck at certain level. Fortunately, the Group has gradually reduced its export proportion in the overall sale from last year, so the impact of the global financial turmoil induced by the US sub-prime mortgage crisis is limited to the Group.

From the analysis of the consumers in the mid-to-high-end solid wood furniture sector, since residents in the "second – and third-tier" cities in the Mainland 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 business growth and development in these cities are particularly encouraging. However, sales by the Group declined remarkably since August in cities such as Beijing and Shanghai. In view of its direct sale shops mainly located in "first-tier" cities and the loss recorded by the direct retail business as the impact of the prevailing global financial turmoil, the Group switched its focus to the indirect retail business, and is considering to contract out the operation activities of its direct sale shops and close down those poorly-managed shops.

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.

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 maintain stability under such a tough environment.

Total turnover amounted to approximately HK$477.8 million during the current year, representing an increase of 6.7% over year 2007.

The Group focuses on the Chinese domestic retail market, with approximately 98% of the turnover derived from the PRC retail-related businesses, of which the franchising business accounts for approximately 84% and the self-owned shop business takes up approximately 14%.

During the year, total gross profit was approximately HK$153.9 million, representing a gross profit margin of 32.2%. Furthermore, in order to fasten the cash recalling, the Group has also provided some sales preferential benefit to customers, such as providing a certain amount of sales discount for those customers who prepaid partially for their orders before a designated date, and led to a slight drop in gross profit margin compared with last year.

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 in year 2008 dropped by 44% as compared with last year to be only approximately HK$66.1 million, the net profit ratio was 13.8%.

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 ended 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. It is another expansion of the Group to furniture direct retail business after its first step into the furniture direct retail business through the acquisition of the furniture assets and retail business in Lang Fang Huari Furniture International Exhibition Center (Hall A) in March 2007.

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 dated 23 June 2008 respectively.

ACQUISITION OF TRADEMARKS

On 20 June 2008, the Group and Lang Fang Huari Furniture Joint Stock Co., Ltd* (廊坊華日家具股份有限公司) ("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 Huari Hengyu Home Co., Ltd* (廊坊華日恒宇家居有限公司) ("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 Lang Fang Tian Feng Home Co., Ltd* (廊坊天豐家居有限公司) ("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.

As at 31 December 2008, the transfer of titleship of trademarks is still in progress.

Franchised Retail Shop Business

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 so as to fully utilize and capitalize 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 approximately HK$391,986,000 in 2008, representing an increase of 7.9% over the last year.

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 minimizing the need for management from the Group's marketing headquarters, thus facilitating the Group to leverage on business opportunities for opening up new markets more rapidly and securely.

As a result of the success of the Huari franchising model, the Jixiangniao (Lucky Bird) fabric furniture business, introduced early this year, was introduced into the Group to target at the young people's 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 exclusively 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 carried out in strict compliance with the rules of the Group's marketing headquarters.

Upon completion of re-modifications to the retail network in the first quarter, turnover of Jixiangniao (Lucky Bird) increased from approximately HK$9,537,000 in the second quarter to approximately HK$10,186,000 in the forth quarter. Although the Jixiangniao (Lucky Bird) fabric furniture business targeted at young people accounts for only around 7.2% 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

In August and September, 2008, the traffic control imposed during the Olympic Games events held in Beijing and Hebei regions, and the weakened desire of the Mainland residents for purchasing furniture due to their passion for the Olympic Games, compounded by the impact of the PRC's macro economic control initiatives and the global financial turmoil, though the overall direct sales business recorded an approximately HK$24,995,000 net profit, some direct sale businesses recorded losses. This has forced the Group to shrink its management scope of direct sale shops from the fourth quarter and to focus its human and financial resources on internal management by planning to contract out the operation activities of direct sale shops to its existing teams in the future in order to mitigate operation risks. The Group will step up the development of the franchised retail shop business which has a relatively low risk.

PROSPECT

The management believes that the PRC furniture is highly fragmented without dominant player in the market. Due to the fierce competition in the furniture market, the management believes that the industry consolidation has been continued to take place in coming few years. As such, the management will continue to make every effort to enhance operational efficiency and become a market consolidator by acquiring other potential furniture players as one of the way of strengthening our product mix and distribution network.

A lot of domestic furniture enterprises closed down because of serious atrophy in exports during the year 2008 global financial crisis. If the Group can capture the opportunity to acquire some furniture business with revaluation potential and restructure its business, there shall be the chance to emerge stronger from current crises.

FINANCIAL REVIEW

The Group generated approximately HK$477.8 million in total revenue, representing a growth of 6.7% as compared with year 2007.

The turnover can be further analyzed as follow:

	2008		2007		
	HK$ million	*%*	*HK$ million*	*%*	*Changes*
PRC indirect retail sales	**403.5**	**84%**	364.7	81%	10.6%
PRC direct retail sales	**64.9**	**14%**	31.8	7%	104.1%
PRC sales to different projects	**–**	**–**	7.1	2%	(100%)
Export sales	**9.4**	**2%**	44.2	10%	(78.7%)
Total	**477.8**	**100%**	447.8	100%	

LIQUIDITY AND FINANCIAL RESOURCES

All the Group's funding and treasury activities are basically 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 31 December 2008, cash and bank balances of the Group was approximately HK$54,977,000 (2007: HK$55,477,000), approximately 99% of the Group's cash was denominated in Renminbi and 1% of the Group's cash was denominated in Hong Kong Dollars. The exposure to exchange fluctuation was minimal.

The Group has no bank borrowings throughout the year under review.

As at 31 December 2008, total borrowing of the Group amounted to approximately HK$60,000 (2007: HK$77,000), representing obligation under a finance lease contract with an interest rate of approximately 5% per annum and average lease term of approximately five years.

EMPLOYEE AND REMUNERATION POLICY

As at 31 December 2008, the Group had employed 5 staffs in Hong Kong and 527 staffs in PRC (as at 31 December 2007: 6 staffs in Hong Kong and 226 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 year 2008 amounted to approximately HK$13,360,000 (2007: HK$5,964,000).

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 twelve months ended 31 December 2008, the Group hired an average monthly number of 1,494 workers through the labour service contracts signed by Langfang Hengyu with Lang Fang Huari Furniture Joint Stock Co., Limited, (2007: The monthly average of workers hired by the Group were 2,104). 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 year ended 31 December 2008, the average monthly labour service payment made by Langfang Hengyu was approximately HK$2,045,000. 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 the Group was approximately HK$1,827,000).

CHARGE ON GROUP 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 31 December 2008. As at 31 December 2007, save as the finance lease contract for the Group's office equipment, the bank deposits of approximately HK$2,799,000 was pledged as security for the banking facilities granted to the Group.

GEARING RATIO

As at 31 December 2008, the Group's gearing ratio was 0.01% representing a percentage of obligations under finance lease over shareholders' equity (2007: 0.02%), and the net current assets was approximately HK$179,903,000 (2007: HK$171,549,000).

FOREIGN CURRENCY EXPOSURE

As most of the Group's transactions are denominated in Renminbi and Hong Kong dollars, the Directors believe that the exposure to exchange fluctuation was not material and the Group has not implemented any formal hedging or other alternative policies to deal with such exposure.

CONTINGENT LIABILITIES

The Group had no contingent liabilities as at 31 December 2008.

As at 31 December 2007, the Group had the following 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. 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 could be ascertained only when the amount of legal costs to be paid, pursuant to the Settlement could be agreed upon or taxed by the Court, the Group has already made a provision of HK$670,000 (being the amount stated in the draft Bill of Costs dated 14 September 2007 provided by the legal advisors of the Ex-executive Directors) for such legal cost. 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 by the Company. In the opinion of the Directors, save as the abovementioned provision of HK$670,000, no other provision for the Group's exposure to the above litigation will be made as at 31 December 2007. The Settlement was finalised in 2008 and there was no more provision as at 31 December 2008.

CODE OF CONDUCT REGARDING SECURITIES TRANSACTIONS BY DIRECTORS

During the year ended 31 December 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.

BOARD OF DIRECTORS

The Board comprises five Directors, of whom two are executive Directors (one is the chairman and chief executive officer of the Company), and three are independent non-executive Directors. The participation of independent non-executive Directors in the Board brings independent judgement on issues relating to the Group's strategy, performance, conflicts of interest and management process to ensure that the interests of all shareholders of the Company have been duly considered.

The Board members during the year ended 31 December 2008 were:

Executive Directors
Mr. Li Ge *(Chairman and Chief Executive Officer)*
Mr. Zhao Guo Wei

Independent non-executive Directors
Mr. Lee Yuen Kwong
Mr. Yang Dongli
Mr. Yang Jie

The independent non-executive Directors should be responsible for making independent decisions in relation to the matters such as strategy, performance, conflict of interest and management process of the Group, in order to ensure the interest of the shareholders as a whole has been considered properly. Furthermore, in accordance with the requirement of the GEM Listing Rules, the audit committee was chaired by an independent non-executive Director with appropriate accounting qualifications and professional experiences.

The Board considers that all of the independent non-executive Directors are independent and has received from each of them the annual confirmation of independence required by the Section 5.09 of the GEM Listing Rules.

The Board is responsible for the approval and monitoring of the Group's overall strategies and policies; approval of business plans; evaluating the performance of the Group and oversight of the management. It is also responsible for promoting the success of the Company and its businesses by directing and supervising the Company's affairs.

The Board focuses on overall strategies and policies with particular attention paid to the growth and financial performance of the Group.

The Board delegates day-to-day operations of the Group to executive Directors and senior management, while reserving certain key matters for its approval. Decisions of the Board are communicated to the management through the executive Directors who attend Board meetings.

There is no relationship (whether financial, business, family or other material/relevant relationships) among the members of the Board.

CORPORATE GOVERNANCE REPORT

The Company is committed to achieving high standards of corporate governance and following the principles set out in the Code on Corporate Governance Practices for GEM listed companies as set out in Appendix 15 of the GEM Listing Rules (the "CG Code"). During the year, save as disclosed hereunder, the Company complied with and did not deviate from the code provisions as set out in the CG Code:

Code Provision A.2.1

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 industry experience. 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 will seek for proper candidate to serve as the chief executive officer of the Company.

REMUNERATION COMMITTEE

The remuneration committee comprises the three independent non-executive Directors, namely Mr. Lee Yuen Kwong (Chairman), Mr. Yang Jie and Mr. Yang Dongli.

The principal functions include:

– to recommend to the Board on the Company's policies and structure for the remuneration of the directors and senior management of the Group;

– to determine the remuneration packages of all executive Directors and senior management of the Group;

– to review and approve their performance-based remuneration.

The principal elements of executive remuneration package include basic salary, discretionary bonus and share option. The emoluments of executive Directors are based on skill, knowledge and involvement in the Company's affairs of each director and are determined by reference to the Company's performance and profitability, as well as remuneration benchmark in the industry and the prevailing market conditions.

The remuneration committee consults the chairman and chief executive officer about its proposals relating to the remuneration of other executive Directors. The remuneration committee decisions were approved by way of written resolutions passed by all the committee members. A resolution in writing signed by all the committee members shall be as valid and effectual as if it had been passed at a meeting of the remuneration committee duly convened and held.

During the year, the Remuneration Committee has held one meeting to review the existing remuneration packages of the existing executive directors and senior management of the Company, and recommend to freeze the remuneration packages for the existing executive director and senior management of the Company for one year. All three committee members have attended the meeting.

NOMINATION OF DIRECTORS

The Company does not establish a nomination committee. The Board is empowered under the Company's byelaws to appoint any person as a director either to fill a casual vacancy on or, subject to authorization by the shareholders of the Company in general meeting, as an additional member of the Board. Qualified candidates will be proposed to the Board for consideration and the selection criteria are mainly based on the assessment of their professional qualifications and experience. The Board selects and recommends candidates for directorship having regard to the balance of skills and experience appropriate to the Group's business.

During the year ended 31 December 2008, because there is no change in board membership, the Board has no meeting for the nomination of directors.

AUDIT COMMITTEE

The Audit Committee was established on 7 July 2000 to review the Group's financial reporting, internal controls and make relevant recommendations to the Board.

The Audit Committee comprises the three independent non-executive Directors, namely Mr. Lee Yuen Kwong, Mr. Yang Dongli and Mr. Yang Jie. The chairman of the Audit Committee is Mr. Lee Yuen Kwong.

The Audit Committee held four meetings in 2008, which were attended by all three members. The Group's 2008 quarterly reports, 2008 half-yearly report, 2007 and 2008 annual results and 2007 and 2008 annual reports have been reviewed by the Audit Committee, which was of the opinion that such reports and results were prepared in accordance with the applicable accounting standards and requirements. The committee also monitored the Company's progress in implementing the code provisions of corporate governance practices as required under the GEM Listing Rules.

ACCOUNTABILITY AND INTERNAL CONTROLS

The Directors acknowledge their responsibility for preparing all information and representations contained in the consolidated financial statements of the Company for the year under review. As at 31 December 2008, the Directors have conducted a review of the effectiveness of the system of internal control of the Group and are not aware of any material uncertainties relating to events or conditions which may cost significant doubt upon the ability of the Company to continue as a going concern basis.

The statement of the external auditors of the Company about their reporting responsibilities on the consolidated financial statements is set out in the auditors' report of the annual report of the Company for the year ended 31 December 2008.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

The Company has not redeemed any of its listed securities during the year ended 31 December 2008. The Company or any of its subsidiaries has not purchased or sold any of the Company's listed securities during the year.

COMMUNICATIONS WITH SHAREHOLDERS

The Board communicates with the shareholders through the annual general meetings and special general meetings. In compliance with the requirements of GEM Listing Rules, the Company issued regular reports, announcements, circulars, notice of general meetings. Shareholders can get the latest information of the Company through these publications of the Company.

On behalf of the Board
Li Ge
Executive Director

Hong Kong, 25 March 2009

As at the date of this announcement, the Board comprises Mr. Li Ge and Mr. Zhao Guo Wei as executive Directors, and Mr. Lee Yuen Kwong, Mr. Yang Jie and Mr. Yang Dongli as independent non-executive Directors.

This announcement will remain on the GEM website at http://www.hkgem.com on the "Latest Company Announcements" page for at least seven days from the day of its posting and on the website of the Company at www.fava.com.hk.