

FAVA International Holdings Limited

名家國際控股有限公司*

(Incorporated in Bermuda with limited liability)

(Stock Code: 08108)

ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2009

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GEM has been established as a market designed to accommodate companies to which a high investment risk may be attached. In particular, companies may list on GEM with neither a track record of profitability nor any obligation to forecast future profitability. Furthermore, there may be risks arising out of the emerging nature of companies listed on GEM and the business sectors or countries in which the companies operate. Prospective investors should, be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration. The greater risk profile and other characteristics of GEM mean that it is a market more suited to professional and other sophisticated investors.

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This announcement, for which the directors (the “Director(s)”) of FAVA International Holdings Limited (the “Company”) collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on the GEM of the Stock Exchange (the “GEM Listing Rules”) for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief:– 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.

* 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 2009 together with the comparative figures for the year ended 31 December 2008 as follow:

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2009

		2009	2008
	Notes	HK\$'000	HK\$'000
Turnover	5	297,460	477,827
Cost of sales		<u>(252,309)</u>	<u>(323,895)</u>
Gross profit		45,151	153,932
Other revenue	5	2,473	3,496
Other income	6	2,227	172
Impairment loss of goodwill		(61,576)	(11,868)
Selling and distribution costs		(45,896)	(43,521)
Administrative expenses		(33,755)	(28,691)
Other operating expenses	7	<u>(29,104)</u>	<u>(7,378)</u>
(Loss)/profit from operations	6	(120,480)	66,142
Finance costs		<u>(4)</u>	<u>(4)</u>
(Loss)/profit before taxation		(120,484)	66,138
Taxation	8	<u>—</u>	<u>—</u>
(Loss)/profit for the year		(120,484)	66,138
Other comprehensive income for the year, net of tax			
Exchange differences on translating foreign operations		<u>112</u>	<u>19,728</u>
Total comprehensive (expense)/income for the year		<u>(120,372)</u>	<u>85,866</u>
(Loss)/profit attributable to owners of the Company		<u>(120,484)</u>	<u>66,138</u>
Total comprehensive (expense)/income attributable to owners of the Company		<u>(120,372)</u>	<u>85,866</u>
(Loss)/earnings per share	10		
– Basic and diluted (HK cents per share)		<u>(9.18)</u>	<u>5.50</u>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2009

	<i>Notes</i>	2009 HK\$'000	2008 HK\$'000
Non-current assets			
Property, plant and equipment		107,038	121,720
Goodwill		2,406	64,006
Intangible assets		10,219	10,778
Long term prepayments		15,060	11,288
		134,723	207,792
Current assets			
Inventories		141,150	143,531
Trade receivables	<i>11</i>	41,157	38,826
Prepayments, deposits and other receivables		85,360	50,539
Cash and bank balances		23,531	54,977
		291,198	287,873
Less: Current liabilities			
Trade payables	<i>12</i>	39,462	20,354
Other payables and accruals		62,648	42,531
Receipts in advance		37,976	44,120
Amount due to a director		650	949
Obligations under finance lease – due within one year		16	16
		140,752	107,970
Net current assets		150,446	179,903
Total assets less current liabilities		285,169	387,695
Less: Non-current liability			
Obligations under finance lease – due after one year		27	44
Net assets		285,142	387,651
Capital and reserves			
Share capital		2,769	2,405
Reserves		282,373	385,246
Total equity attributable to owners of the Company		285,142	387,651

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2009

	Attributable to owners of the Company						
	Share capital HK\$'000	Share premium HK\$'000	Contributed surplus HK\$'000	(Accumulated losses)/ retained earnings HK\$'000	Exchange reserve HK\$'000	Statutory reserves HK\$'000	Total equity HK\$'000
At 1 January 2008	2,405	151,778	36,000	69,103	16,720	25,779	301,785
Profit for the year	–	–	–	66,138	–	–	66,138
Other comprehensive income for the year	–	–	–	–	19,728	–	19,728
Total comprehensive income for the year	–	–	–	66,138	19,728	–	85,866
Transfer to statutory reserves	–	–	–	(15,702)	–	15,702	–
At 31 December 2008 and 1 January 2009	2,405	151,778	36,000	119,539	36,448	41,481	387,651
Loss for the year	–	–	–	(120,484)	–	–	(120,484)
Other comprehensive income for the year	–	–	–	–	112	–	112
Total comprehensive (expense)/income for the year	–	–	–	(120,484)	112	–	(120,372)
Issue of shares	364	–	–	–	–	–	364
Premium arising from issue of new shares, net of expenses	–	17,499	–	–	–	–	17,499
At 31 December 2009	<u>2,769</u>	<u>169,277</u>	<u>36,000</u>	<u>(945)</u>	<u>36,560</u>	<u>41,481</u>	<u>285,142</u>

NOTES:

1. CORPORATE INFORMATION

FAVA International Holdings Limited (the “Company”) is a limited liability company incorporated in Bermuda. The registered office and the principal place of business of the Company are disclosed in “Corporate Information” section of the annual report.

The principal activity of the Company is investment holding. During the year, the principal activities of the Group are the manufacturing and sales of household products.

2. 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 consolidated 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 2008 consolidated financial statements.

3. 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 and revised standards, amendments and interpretations that are mandatory for accounting periods beginning on or after 1 January 2009. The new and revised standards, amendments and interpretations adopted in the current year are referred to as new and revised HKFRSs. A summary of the effect on initial adoption of these new and revised HKFRSs is set out below.

HKAS 1 (Revised)	Presentation of Financial Statements
HKAS 23 (Revised)	Borrowing Costs
HKAS 32 & 1 (Amendments)	Puttable Financial Instruments and Obligations Arising on Liquidation
HKFRS 1 & HKAS 27 (Amendments)	Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate
HKFRS 2 (Amendment)	Vesting Conditions and Cancellations
HKFRS 7 (Amendment)	Improving Disclosures about Financial Instruments
HKFRS 8	Operating Segments
HK(IFRIC)-Int 9 & HKAS 39 (Amendments)	Embedded Derivatives
HK(IFRIC)-Int 13	Customer Loyalty Programmes
HK(IFRIC)-Int 15	Agreements for the Construction of Real Estate
HK(IFRIC)-Int 16	Hedges of a Net Investment in a Foreign Operation
HK(IFRIC)-Int 18	Transfers of Assets from Customers
HKFRSs (Amendments)	Improvements to HKFRSs issued in 2008, except for the amendment to HKFRS 5 that is effective for annual periods beginning on or after 1 July 2009
HKFRSs (Amendments)	Improvements to HKFRSs issued in 2009 in relation to the amendments to paragraph 80 of HKAS 39

HKAS 1 (Revised) Presentation of Financial Statements

HKAS 1 (Revised) affects certain disclosures of financial statements. Under the revised standard, the Income Statement, the Balance Sheet and the Cash Flow Statement are renamed as the “Statement of Comprehensive Income”, the “Statement of Financial Position” and the “Statement of Cash Flows” respectively. All income and expenses arising from transaction with non-owners are presented under the “Statement of Comprehensive Income”; while the owners’ changes in equity are presented in the “Statement of Changes in Equity”. This change in presentation has no effect on reported profit or loss, total income and expense or net assets for any period presented.

HKFRS 8 Operating Segments

HKFRS 8 is a disclosure standard that has changed the basis of measurement of the Group’s segments (see Note 4). However, the adoption of HKFRS 8 has not resulted in a re-designation of the Group’s reportable segments.

Improving Disclosures about Financial Instruments (Amendments to HKFRS 7 Financial Instruments: Disclosures)

The amendments to HKFRS 7 expand the disclosures required in relation to fair value measurements and liquidity risk. The Group has not presented comparative information for the expanded disclosures in accordance with the transitional provision set out in the amendments.

Standards and interpretations in issue but not yet effective

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

HKFRSs (Amendments)	Amendments to HKFRS 5 as part of Improvements to HKFRSs issued in 2008 ¹
HKFRSs (Amendments)	Improvements to HKFRSs issued in 2009 ²
HKAS 24 (Revised)	Related Party Disclosures ⁶
HKAS 27 (Revised)	Consolidated and Separate Financial Statements ¹
HKAS 28 (Revised)	Investments in Associates ¹
HKAS 32 (Amendment)	Classification of Rights Issues ⁴
HKAS 39 (Amendment)	Eligible Hedged Items ¹
HKFRS 1 (Amendment)	Additional Exemptions for First-time Adopters ³
HKFRS 1 (Amendment)	Limited Exemption from Comparative HKFRS 7 Disclosures for First-time Adopters ⁵
HKFRS 2 (Amendment)	Group Cash-settled Share-based Payment Transactions ³
HKFRS 3 (Revised)	Business Combinations ¹
HKFRS 9	Financial Instruments (relating to the classification and measurement of financial assets) ⁷
HK(IFRIC) – Int 14 (Amendment)	Prepayments of a Minimum Funding Requirement ⁶
HK(IFRIC) – Int 17	Distribution of Non-cash Assets to Owners ¹
HK(IFRIC) – Int 19	Extinguishing Financial Liabilities with Equity Instruments ⁵

- ¹ Effective for annual periods beginning on or after 1 July 2009
- ² Effective for annual periods beginning on or after 1 July 2009 and 1 January 2010, as appropriate
- ³ Effective for annual periods beginning on or after 1 January 2010
- ⁴ Effective for annual periods beginning on or after 1 February 2010
- ⁵ Effective for annual periods beginning on or after 1 July 2010
- ⁶ Effective for annual periods beginning on or after 1 January 2011
- ⁷ Effective for annual periods beginning on or after 1 January 2013

HKFRS 9 Financial Instruments introduces new requirements for the classification and measurement of financial assets and will be effective from 1 January 2013, with earlier application permitted. The standard requires all recognised financial assets that are within the scope of HKAS 39 Financial Instruments: Recognition and Measurement to be measured at either amortised cost or fair value. Specifically, debt investments that (i) are held within a business model whose objective is to collect the contractual cash flows and (ii) have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost. All other debt investments and equity investments are measured at fair value. The application of HKFRS 9 will affect the classification and measurement of the Group's financial assets.

In addition, as part of Improvements to HKFRSs issued in (2009), HKAS 17 Leases has been amended in relation to the classification of leasehold land. The amendments will be effective from 1 January 2010, with earlier application permitted. Before the amendments to HKAS 17, lessees were required to classify leasehold land as operating leases and presented as prepaid land lease payments in the consolidated statement of financial position. The amendments have removed such a requirement. Instead, the amendments require the classification of leasehold land to be based on the general principles set out in HKAS 17, that are based on the extent to which risks and rewards incidental to ownership of a leased asset lie with the lessor or the lessee. The application of the amendments to HKAS 17 might affect the classification of the Group's leasehold land.

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.

4. SEGMENT INFORMATION

The Group adopted HKFRS 8 from 1 January 2009. Adoption of this standard did not have any effect on the Group's results of operations or financial position. With the adoption of HKFRS 8, the Group has re-assessed the operating segments compared to the business segments previously identified under HKAS 14, based upon the information reported internally to the Group's chief operating decision maker.

The total net segment income is equivalent to total comprehensive income for the year as shown in the consolidated statement of comprehensive income and the total segment assets and total segment liabilities are equivalent to total assets and total liabilities as shown in the consolidated statement of financial position.

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

An analysis of the Group's revenue and results and certain assets, liabilities and expenditure information for the Group's reportable segments is as follows:

(a) Segment revenue and results

	Direct retail of household products		Indirect retail of household products and others		Total	
	2009	2008	2009	2008	2009	2008
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Segment revenue:						
Sales to external customers	<u>36,350</u>	<u>64,883</u>	<u>261,110</u>	<u>412,944</u>	<u>297,460</u>	<u>477,827</u>
Segment results	<u>(141,002)</u>	<u>5,464</u>	<u>20,592</u>	<u>66,336</u>	<u>(120,410)</u>	<u>71,800</u>
Interest income and unallocated gains					4,800	3,668
Corporate and other unallocated expenses					(4,870)	(9,326)
Finance costs					<u>(4)</u>	<u>(4)</u>
(Loss)/profit before taxation					(120,484)	66,138
Taxation					<u>—</u>	<u>—</u>
(Loss)/profit for the year					<u>(120,484)</u>	<u>66,138</u>

There were no inter-segment sales in the year (2008: Nil). Segment profit represents the profit earned by each segment without allocation of central administration costs including directors' salaries, investment and other income, finance costs and income tax expense. This is the measure reported to chief operating decision maker for the purposes of resource allocation and assessment of segment performance.

	Direct retail of household products		Indirect retail of household products and others		Total	
	2009	2008	2009	2008	2009	2008
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Assets and liabilities						
Segment assets	6,351	95,307	418,898	396,976	425,249	492,283
Corporate and other unallocated assets					672	3,382
Total assets					425,921	495,665
Segment liabilities	69,360	22,906	69,914	83,057	139,274	105,963
Corporate and other unallocated liabilities					1,505	2,051
Total liabilities					140,779	108,014

	Direct retail of household products		Indirect retail of household products and others		Unallocated		Total	
	2009	2008	2009	2008	2009	2008	2009	2008
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Other segment information								
Depreciation	2,057	1,664	17,814	16,884	50	50	19,921	18,598
Amortisation of intangible assets	–	–	3,975	2,757	–	–	3,975	2,757
Capital expenditure	502	3,250	4,771	53,019	–	–	5,273	56,269
Impairment loss of goodwill	61,576	11,868	–	–	–	–	61,576	11,868
Impairment loss of trade receivables	–	206	6,532	7,156	–	–	6,532	7,362
Impairment loss of prepayments and other receivables	–	16	5,597	–	–	–	5,597	16
Write down of obsolete inventories	–	–	12,800	–	–	–	12,800	–

(b) Geographical segments

During the year, the Group's turnover was mainly made to customers located at the PRC, USA and European Union. The Group's revenue from continuing operations from external customers and information about its non-current assets by geographical location are detailed belows.

	Direct retail of household products		Indirect retail of household products and others		Total	
	2009	2008	2009	2008	2009	2008
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Sales						
The PRC	36,350	64,883	260,758	403,516	297,108	468,399
USA	—	—	245	2,982	245	2,982
European Union	—	—	87	5,148	87	5,148
Others	—	—	20	1,298	20	1,298
	<u>36,350</u>	<u>64,883</u>	<u>261,110</u>	<u>412,944</u>	<u>297,460</u>	<u>477,827</u>
Non-current assets						
The PRC	<u>1,131</u>	<u>8,010</u>	<u>133,572</u>	<u>135,706</u>	<u>134,703</u>	<u>143,716</u>

(c) Other information

Revenue from major products

The Group's revenue from its major products are as follows:

	2009	2008
	HK\$'000	HK\$'000
Direct retail of household products	36,350	64,883
Indirect retail of household products and others	<u>261,110</u>	<u>412,944</u>
	<u>297,460</u>	<u>477,827</u>

Information about major customer

Includes in revenues arising manufacturing and sales of household products of approximately HK\$297,460,000 (2008: HK\$477,827,000) are revenues of approximately HK\$35,211,000 (2008: HK\$64,110,000) which arose from sales to the Group's largest customer (the indirect retail of household products and others segment.)

5. 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	
	2009	2008
	<i>HK\$'000</i>	<i>HK\$'000</i>
Turnover:		
Indirect retail of household products and others	261,110	412,944
Direct retail of household products	36,350	64,883
	<u>297,460</u>	<u>477,827</u>
Other revenue:		
Bank interest income	19	25
Sundry income	2,454	2,911
Sales of raw materials	–	560
	<u>2,473</u>	<u>3,496</u>

6. (LOSS)/PROFIT FROM OPERATIONS

The Group's (loss)/profit from operations is arrived at after charging:

	The Group	
	2009	2008
	HK\$'000	HK\$'000
Cost of inventories sold	252,309	323,895
Auditors' remuneration	500	500
	<u>252,809</u>	<u>324,395</u>
Depreciation on owned property, plant and equipment	19,896	18,573
Depreciation on property, plant and equipment held under finance lease	25	25
	<u>19,921</u>	<u>18,598</u>
Minimum lease payments under operating leases:		
Plant and machinery	4,176	2,088
Land and buildings	14,705	15,722
	<u>18,881</u>	<u>17,810</u>
Employee benefits expense (excluding directors' remuneration):		
Wages, salaries and other allowances	27,933	36,996
Pension scheme contributions	4,892	904
	<u>32,825</u>	<u>37,900</u>
Amortisation of intangible assets	3,975	2,757
Amortisation of long term prepayments	7,522	3,715
Impairment loss of goodwill	61,576	11,868
Impairment loss of trade receivables	6,532	7,362
Impairment loss of prepayments and other receivables	5,597	16
Write down of obsolete inventories	12,800	—
(Gain)/loss on disposals on property, plant and equipment	(10)	1,179
	<u>(10)</u>	<u>1,179</u>
and after crediting:		
Other income:		
Reversal of provision for claims	—	172
Reversal of impairment loss of trade receivables	2,122	—
Others	105	—
	<u>2,227</u>	<u>172</u>

7. OTHER OPERATING EXPENSES

	The Group	
	2009	2008
	HK\$'000	HK\$'000
Impairment loss of trade receivables	6,532	7,362
Impairment loss of prepayments and other receivables	5,597	16
Loss on disposals of raw materials	16,975	—
	<u>29,104</u>	<u>7,378</u>

8. 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 (2008: 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 (2008: Nil).

	The Group	
	2009	2008
	HK\$'000	HK\$'000
Current – Hong Kong	—	—
Current – PRC	—	—
	<u>—</u>	<u>—</u>
Tax charge for the year	<u>—</u>	<u>—</u>

A reconciliation between tax expense and accounting (loss)/profit at appreciate tax rates is set out below:

	2009		2008	
	HK\$'000	%	HK\$'000	%
(Loss)/profit before taxation	<u>(120,484)</u>		<u>66,138</u>	
National tax on profit before taxation, calculated at the rates applicable to profits in the countries concerned	(30,984)	(25.7)	18,313	27.7
Tax holiday for a subsidiary operating in the PRC	–	–	(23,921)	(36.2)
Tax effect of expenses not deductible for tax purpose	26,227	21.8	3,941	6.0
Tax effect of income not taxable for tax purpose	(19)	–	(187)	(0.3)
Tax effect of unrecognised temporary difference	5	–	–	–
Tax loss not recognised	<u>4,771</u>	<u>3.9</u>	<u>1,854</u>	<u>2.8</u>
Tax effect for the year at the Group's effective rate	<u><u>–</u></u>	<u><u>–</u></u>	<u><u>–</u></u>	<u><u>–</u></u>

Deferred taxation

Deferred tax assets have not been recognised in respect of the following items:

	The Group	
	2009	2008
	HK\$'000	HK\$'000
Tax losses	325	325
Deductible temporary differences	<u>3</u>	<u>3</u>
	<u><u>328</u></u>	<u><u>328</u></u>

The above tax losses are available for offsetting against future taxable profits of the companies in which the losses arose. Deferred tax assets have not been recognised in respect of the above items as it is not considered probable that taxable profits will be available against which the above items can be utilised.

9. DIVIDENDS

No dividend has been declared or proposed by the directors of the Company in respect of the year ended 31 December 2009 (2008: Nil).

10. (LOSS)/EARNINGS PER SHARE ATTRIBUTABLE TO OWNERS OF THE COMPANY

The calculation of basic (loss)/earnings per share amount is based on the (loss)/profit for the year attributable to owners of the Company, and the weighted average number of ordinary shares in issue during the year.

	2009 HK\$'000	2008 HK\$'000
<i>(Loss)/earnings</i>		
(Loss)/profit attributable to owners of the Company, used in the basic (loss)/earnings per share calculation	<u>(120,484)</u>	<u>66,138</u>
<i>Number of shares</i>	'000	'000
Weighted average number of ordinary shares in issue during the year used in the basic (loss)/earnings per share calculation	<u>1,312,000</u>	<u>1,202,800</u>

There was no diluting event existed during the years ended 31 December 2009 and 2008.

11. TRADE RECEIVABLES

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

	The Group 2009 HK\$'000	2008 HK\$'000
Trade receivables	53,370	46,625
Less: Impairment loss of trade receivables	<u>(12,213)</u>	<u>(7,799)</u>
	<u>41,157</u>	<u>38,826</u>

As at 31 December 2009, the Group's trade receivables of approximately HK\$12,213,000 (2008: HK\$7,799,000) were individually determined to be impaired. The individual impaired receivables related to customers that were in financial difficulties and management assessed that the receivables were not expected to be recovered. The Group does not hold any collateral over these balances.

An ageing analysis of trade receivables as at the end of the reporting period, based on the invoice date and net of provisions, is as follows:

	The Group	
	2009	2008
	HK\$'000	HK\$'000
0 – 30 days	15,324	23,111
31 – 60 days	7,952	2,095
61 – 90 days	1,801	2,420
91 – 180 days	4,813	1,965
Over 180 days	11,267	9,235
	<u>41,157</u>	<u>38,826</u>

12. TRADE PAYABLES

An aging analysis of trade payables as at the end of the reporting period, based on the invoice date, is as follows:

	The Group	
	2009	2008
	HK\$'000	HK\$'000
0 – 30 days	11,381	6,126
31 – 60 days	10,762	2,641
61 – 90 days	2,674	2,362
91 – 180 days	5,527	4,280
Over 180 days	9,118	4,945
	<u>39,462</u>	<u>20,354</u>

BUSINESS REVIEW

The global economy remained volatile and challenging in 2009. The global economic downturn has a far-reaching impact on the markets around the world. The furniture industry is still in difficulties, where the impact on the residential/household furniture retail business as well as on the Group's customers and the suppliers' business was considerable. The Group values the relationships with its partners and has made every effort to help customers, suppliers and business partners weather the hard times.

Given the tough business environment and the sales fall in developed business, the Group continued to consolidate its financial position on one hand and aggressively sought a "light asset" running strategy on the other hand by attempting to switch to trading as our focus to improve operational efficiency.

The gross profit margin of the Group fell against the same period last year. At the end of the year, the Group recorded a loss totalling approximately HK\$120 million, largely attributable to the deteriorating business environment which led to a fall in sales volume; the reduced output which resulted in a fall in the capacity utilization rate of plants and a rise in unit costs; the provision of sales subsidies for franchisees which led to an increase in sales expenses and the downturn of the Group's revenue. In addition, the great loss recorded during the year was mainly attributable to the impairment made to the goodwill arising from the acquisition of Lang Fang Huari Furniture International Exhibition Center (Hall A), disposal of some damaged inventories at a discounted price and provisions provided for bad debts related to receivables and prepayments. In general, the problems regarding high operating costs and overcapacity of our plants are becoming serious.

Gross profit margin was under pressure, falling from 32.2% in 2008 to 15.2% this year as a result of the Group's need to lower sales prices to maintain its market share as well as the rising raw materials prices, wages and transportation costs.

Due to unsatisfactory expected sales in the developed business, the Group had stepped up the optimization of the Company's operations for the sake of the Group's long-term development objectives, while reducing its overall costs and operating expenses.

RETAIL BUSINESS

Due to the fall in orders from franchisees, the Group has introduced various discount offers and provided sales subsidies for franchisees since the second half of 2008 in order to boost sales and maintain market share. During the period under review, the Group has discontinued the expansion of the self-operated retail business due to the sluggish property market in the PRC but will continue to expand and strengthen its franchising business that has been operating successfully over years.

As at the end of 2009, direct and indirect retail businesses accounted for 12.2% and 87.6% of the Group's sales respectively. Indirect retail sales derived from franchisees (including Huari and Jixiangniao brands) amounted to approximately HK\$260,729,000, down 35.4% from last year. Direct retail sales derived from self-owned direct sale shop business (all of which was derived from Huari brand) amounted to approximately HK\$36,350,000, down 43.9% from 2008.

Although the current Chinese economy has begun to make a step forward in recovery, the desire for consumption in the household market will remain weak for some time. Consumers have become more rational and more demanding for product quality and style. This has relatively reduced our market share.

In addition, the Group has been committed to strengthen and develop indirect retail business of Huari brand and contracted out all the existing self-owned direct sale shops under Huari brand as well as the manufacturing and wholesales business related to Jixiangniao brand. Contractors assumed sole responsibilities for their profits or losses, subject to a monthly contracting fee of certain amount payable to the Group. Self-owned direct sale shops under Huari brand in Beijing have been contracted out from the fourth quarter of 2009 and the other self-owned direct sale shops under Huari brand and the manufacturing and wholesales business of Jixiangniao have also been contracted out from January 2010, reducing the Group's operating costs and risks to assure its profitability.

PROSPECTS

The once-in-a-century economic recession has impacted a number of our counterparts in the industry, leaving many factories shut down as a result. Recent signs suggest that the global economic downturn may tend to be slowing down, and the global economy has started to stabilize in 2010, but the industry environment remains challenging. In addition to our aggressive efforts to introduce new product portfolios that cater for the increasing emphasis of general consumers on product quality, the Group will carry out the optimization of the Company's operational structure as well.

In spite of such difficult operating environment, the Group will try to stop the occurrence of loss as soon as possible through the management structure reorganization and the disposal of less efficient assets.

FINANCIAL REVIEW

The Group generated approximately HK\$297,460,000 in total revenue in 2009, representing a fall of 37.7% as compared with year 2008.

The turnover can be further analyzed as follows:

	2009		2008		Change
	<i>HK\$ million</i>	<i>%</i>	<i>HK\$ million</i>	<i>%</i>	
PRC indirect retail sales	260.7	87.6%	403.5	84%	(35.4%)
PRC direct retail sales	36.4	12.2%	64.9	14%	(43.9%)
Export sales	0.4	0.2%	9.4	2%	(95.7%)
Total	297.5	100%	477.8	100%	

PLACING AND SUBSCRIPTION OF NEW SHARES

The Company entered into a placing agreement dated 18 May 2009 with Guotai Junan Securities (Hong Kong) Limited (the “Placing Agent”), whereby the Placing Agent on a best efforts basis, a maximum of 182,000,000 new shares to independent investors at a price of HK\$0.102 per Placing Share.

The placing of 182,000,000 new shares to not less than six placees was completed on 27 May 2009 at a placing price of HK\$0.102 per share. The Company received net proceeds from the placing of approximately HK\$17,863,000 for the purpose of increasing the general working capital.

For further details, please refer to the Company’s announcements dated 18 May 2009 and 27 May 2009.

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 2009, cash and bank balances of the Group was approximately HK\$23,531,000 (2008: HK\$54,977,000), 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 2009, total borrowing of the Group amounted to approximately HK\$44,000 (2008: approximately HK\$60,000), 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 2009, the Group had employed 5 staffs in Hong Kong and 1,388 staffs in PRC (as at 31 December 2008: 5 staffs in Hong Kong and 527 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 2009 amounted to approximately HK\$31,261,000 (2008: approximately HK\$38,610,000).

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 twelve months ended 31 December 2009, the Group did not continue to hire any 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 (2008: 1,494 workers) 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 twelve months ended 31 December 2009, no labour service payment has been made by Langfang Hengyu. The workers hired through the labour service contracts did not enjoy the benefits available to the eligible employees of the Group (2008: approximately average HK\$2,045,000 per month).

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 31 December 2009 (2008: Save as the finance lease contract for the Group’s office equipment, the Group did not have any other charge on its assets).

GEARING RATIO

As at 31 December 2009, the Group’s gearing ratio was approximately 0.01% representing a percentage of obligations under finance lease over shareholders’ equity (2008: 0.01%), and the net current assets was approximately HK\$150,446,000 (2008: approximately HK\$179,903,000).

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 other contingent liabilities at 31 December 2009 (2008: nil).

CODE OF CONDUCT REGARDING SECURITIES TRANSACTIONS BY DIRECTORS

During the year ended 31 December 2009, 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.

COMPLIANCE WITH RULES 5.34 TO 5.45 TO THE GEM LISTING RULES

The Company has complied throughout the year ended 31 December 2009 the minimum standards of good practice concerning the general management responsibilities of the Board as set out in Rules 5.34 to 5.45 of the GEM Listing Rules.

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 2009 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 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.

REMUNERATION COMMITTEE

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

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 not held any meeting to review the existing remuneration packages of the existing executive directors and senior management of the Company.

NOMINATION OF DIRECTORS

The Company does not establish a nomination committee. The Board is empowered under the Company's bye-laws 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 2009, 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 five meetings in 2009, which were attended by all three members. The Group's 2009 quarterly reports, 2009 half-yearly report, 2008 and 2009 annual results and 2008 and 2009 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 2009, 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 cast 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 2009.

PURCHASE, SALE OF REDEMPTION OF LISTED SECURITIES

The Company has not redeemed any of its listed securities during the year ended 31 December 2009. 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

Zhao Guo Wei

Executive Director

Hong Kong, 30 March 2010

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 <http://www.fava.com.hk>.