

# **FAVA INTERNATIONAL HOLDINGS LIMITED**

**名家國際控股有限公司\***

*(Incorporated in Bermuda with limited liability)*

(Stock Code: 08108)

## **INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2010**

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## Interim Results (Unaudited)

The board of directors (the “Board”) of FAVA International Holdings Limited (the “Company”) is pleased to announce the unaudited consolidated interim financial statements of the Company and its subsidiaries (the “Group”) for the three months and six months ended 30 June 2010 together with the comparative figures.

### CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (UNAUDITED)

For the three months and six months ended 30 June 2010

|   |       | Three months ended<br>30 June |          | Six months ended<br>30 June |          |
|---|-------|-------------------------------|----------|-----------------------------|----------|
|   |       | 2010                          | 2009     | 2010                        | 2009     |
|   | Notes | HK\$'000                      | HK\$'000 | HK\$'000                    | HK\$'000 |
| Turnover  | 2     | 49,990                        | 61,340   | 79,527                      | 119,905  |
| Cost of sales   |       | (39,696)                      | (49,989) | (64,147)                    | (95,121) |
| Gross profit  |       | 10,294                        | 11,351   | 15,380                      | 24,784   |
| Other revenue   |       | 392                           | 3,605    | 965                         | 3,853    |
| Other income  |       | 711                           | –        | 3,064                       | –        |
| Impairment loss in respect<br>of goodwill   |       | –                             | (29,599) | –                           | (29,599) |
| Written down of inventories   |       | –                             | (14,923) | –                           | (14,923) |
| Selling and distribution costs  |       | (3,434)                       | (21,528) | (6,831)                     | (32,751) |
| Administrative expenses   |       | (8,123)                       | (11,148) | (15,418)                    | (18,117) |
| Other operating expenses  |       | (229)                         | (129)    | (1,153)                     | (237)    |
| (Loss) from operations  | 3     | (389)                         | (62,371) | (3,993)                     | (66,990) |
| Finance costs   |       | (1)                           | (67)     | (2)                         | (84)     |
| (Loss) before taxation  |       | (390)                         | (62,438) | (3,995)                     | (67,074) |
| Taxation  | 4     | –                             | –        | –                           | –        |
| Net (loss) for the period   |       | (390)                         | (62,438) | (3,995)                     | (67,074) |
| Interim dividend  | 5     | –                             | –        | –                           | –        |
| Other comprehensive income/(expense):   |       |                               |          |                             |          |
| Exchange differences arising<br>from translation of financial<br>statements of subsidiaries |       | 3,942                         | 14       | 4,339                       | (475)    |
| Total comprehensive income/(expense)<br>for the period                                      |       | 3,552                         | (62,424) | 344                         | (67,549) |
|   |       | HK cents                      | HK cents | HK cents                    | HK cents |
| Loss per share  |       |                               |          |                             |          |
| – basic   | 6     | (0.03)                        | (5.04)   | (0.29)                      | (5.42)   |
| – diluted   | 6     | (0.03)                        | (5.04)   | (0.29)                      | (5.42)   |

# CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

|   |              | <b>30 June<br/>2010</b> | 31 December<br>2009 |
|---|--------------|-------------------------|---------------------|
|   | <i>Notes</i> | <b>HK\$'000</b>         | <b>HK\$'000</b>     |
|   |              | <b>(Unaudited)</b>      | <b>(Audited)</b>    |
| <b>NON-CURRENT ASSETS</b>                                 |              |                         |                     |
| Property, plant and equipment                             |              | <b>98,284</b>           | 107,038             |
| Goodwill  |              | <b>2,406</b>            | 2,406               |
| Intangible assets   |              | <b>4,491</b>            | 10,219              |
| Long term prepayments                                     |              | <b>11,385</b>           | 15,060              |
|   |              | <b>116,566</b>          | 134,723             |
| <b>CURRENT ASSETS</b>                                     |              |                         |                     |
| Inventories   | 8            | <b>113,388</b>          | 141,150             |
| Trade receivables   | 9            | <b>22,335</b>           | 41,157              |
| Prepayments, deposits and other receivables               |              | <b>166,158</b>          | 85,360              |
| Cash and bank balances                                    | 10           | <b>15,792</b>           | 23,531              |
|   |              | <b>317,673</b>          | 291,198             |
| <b>CURRENT LIABILITIES</b>                                |              |                         |                     |
| Trade payables  | 11           | <b>41,468</b>           | 39,462              |
| Other payables and accruals                               |              | <b>56,845</b>           | 62,648              |
| Receipts in advance                                       |              | <b>48,462</b>           | 37,976              |
| Amount due to a director                                  |              | <b>47</b>               | 650                 |
| Obligations under finance lease                           |              |                         |                     |
| – due within one year                                     |              | <b>16</b>               | 16                  |
|   |              | <b>146,838</b>          | 140,752             |
| <b>NET CURRENT ASSETS</b>                                 |              | <b>170,835</b>          | 150,446             |
| <b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>              |              | <b>287,401</b>          | 285,169             |
| <b>NON-CURRENT LIABILITIES</b>                            |              |                         |                     |
| Obligations under finance lease                           |              |                         |                     |
| – due after one year                                      |              | <b>19</b>               | 27                  |
| <b>NET ASSETS</b>   |              | <b>287,382</b>          | 285,142             |
| <b>CAPITAL AND RESERVES</b>                               |              |                         |                     |
| Share Capital   | 12           | <b>2,797</b>            | 2,769               |
| Reserves  |              | <b>284,585</b>          | 282,373             |
| <b>Total equity attributable to owners of the Company</b> |              | <b>287,382</b>          | 285,142             |

# CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (UNAUDITED)

|   | Share<br>capital<br><i>HK\$'000</i> | Share<br>premium<br><i>HK\$'000</i> | Contributed<br>surplus<br><i>HK\$'000</i> | Retained<br>earnings/<br>(Accumulated<br>losses)<br><i>HK\$'000</i> | Exchange<br>reserve<br><i>HK\$'000</i> | Statutory<br>reserves<br><i>HK\$'000</i> | Total<br>equity<br><i>HK\$'000</i> |
|---|-------------------------------------|-------------------------------------|---|---|--|--|------------------------------------|
| At 31 December 2008 and<br>1 January 2009                                 | <u>2,405</u>                        | <u>151,778</u>                      | <u>36,000</u>                             | <u>119,539</u>  | <u>36,448</u>                          | <u>41,481</u>                            | <u>387,651</u>                     |
| Loss for the period   | -                                   | -                                   | -   | (67,074)  | -                                      | -  | (67,074)                           |
| Other comprehensive expense<br>for the period                             | <u>-</u>                            | <u>-</u>                            | <u>-</u>                                  | <u>-</u>  | <u>(475)</u>                           | <u>-</u>                                 | <u>(475)</u>                       |
| Total comprehensive expense<br>for the period                             | <u>-</u>                            | <u>-</u>                            | <u>-</u>                                  | <u>(67,074)</u>   | <u>(475)</u>                           | <u>-</u>                                 | <u>(67,549)</u>                    |
| Issue of shares   | 364                                 | -                                   | -   | -   | -                                      | -  | 364                                |
| Premium arising from issue of<br>new shares, net of expenses              | <u>-</u>                            | <u>17,499</u>                       | <u>-</u>                                  | <u>-</u>  | <u>-</u>                               | <u>-</u>                                 | <u>17,499</u>                      |
| At 30 June 2009   | <u>2,769</u>                        | <u>169,277</u>                      | <u>36,000</u>                             | <u>52,465</u>   | <u>35,973</u>                          | <u>41,481</u>                            | <u>337,965</u>                     |
| At 31 December 2009<br>and 1 January 2010                                 | <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>                     |
| Loss for the period   | -                                   | -                                   | -   | (3,995)   | -                                      | -  | (3,995)                            |
| Other comprehensive income<br>for the period                              | <u>-</u>                            | <u>-</u>                            | <u>-</u>                                  | <u>-</u>  | <u>4,339</u>                           | <u>-</u>                                 | <u>4,339</u>                       |
| Total comprehensive (expense)/<br>income for the period                   | <u>-</u>                            | <u>-</u>                            | <u>-</u>                                  | <u>(3,995)</u>  | <u>4,339</u>                           | <u>-</u>                                 | <u>344</u>                         |
| Issue of shares upon<br>exercise of share options                         | 28                                  | -                                   | -   | -   | -                                      | -  | 28                                 |
| Premium arising<br>from issue of shares upon<br>exercise of share options | <u>-</u>                            | <u>1,868</u>                        | <u>-</u>                                  | <u>-</u>  | <u>-</u>                               | <u>-</u>                                 | <u>1,868</u>                       |
| At 30 June 2010   | <u>2,797</u>                        | <u>171,145</u>                      | <u>36,000</u>                             | <u>(4,940)</u>  | <u>40,899</u>                          | <u>41,481</u>                            | <u>287,382</u>                     |

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

|  | <b>2010</b><br><b><i>HK\$'000</i></b> | <b>2009</b><br><b><i>HK\$'000</i></b> |
|--|---------------------------------------|---------------------------------------|
| NET CASH (OUTFLOWS) FROM<br>OPERATING ACTIVITIES         | <b>(13,983)</b>                       | (58,251)                              |
| NET CASH INFLOWS (OUTFLOWS) FROM<br>INVESTING ACTIVITIES | <b>4,348</b>                          | (8,046)                               |
| NET CASH INFLOWS FROM FINANCING ACTIVITIES               | <b><u>1,896</u></b>                   | <u>17,863</u>                         |
| NET (DECREASE) IN CASH<br>AND CASH EQUIVALENTS           | <b>(7,739)</b>                        | (48,434)                              |
| CASH AND CASH EQUIVALENTS AT BEGINNING<br>OF THE PERIOD  | <b><u>23,531</u></b>                  | <u>54,977</u>                         |
| CASH AND CASH EQUIVALENTS<br>AT END OF THE PERIOD        | <b><u><u>15,792</u></u></b>           | <u><u>6,543</u></u>                   |
| ANALYSIS OF BALANCES OF CASH<br>AND CASH EQUIVALENTS     |                                       |                                       |
| Cash and bank balances                                   | <b><u><u>15,792</u></u></b>           | <u><u>6,543</u></u>                   |

Notes:

## 1. BASIS OF PREPARATION

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

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

The accounting policies adopted in preparing the unaudited condensed consolidated financial statements for the six months ended 30 June 2010 are consistent with those adopted in the annual report of the Company for the year ended 31 December 2009.

## 2. TURNOVER

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

|  | Three months ended<br>30 June |               | Six months ended<br>30 June |                |
|--|-------------------------------|---------------|-----------------------------|----------------|
|  | 2010                          | 2009          | 2010                        | 2009           |
|  | HK\$'000                      | HK\$'000      | HK\$'000                    | HK\$'000       |
| Manufacture and sales of household product | <u>49,990</u>                 | <u>61,340</u> | <u>79,527</u>               | <u>119,905</u> |

## 3. (LOSS) FROM OPERATIONS

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

|   | Three months ended<br>30 June |              | Six months ended<br>30 June |              |
|---|-------------------------------|--------------|-----------------------------|--------------|
|   | 2010                          | 2009         | 2010                        | 2009         |
|   | HK\$'000                      | HK\$'000     | HK\$'000                    | HK\$'000     |
|   | (Unaudited)                   | (Unaudited)  | (Unaudited)                 | (Unaudited)  |
| Cost of sales                                 | 39,696                        | 49,989       | 64,147                      | 95,121       |
| Depreciation on property, plant and equipment | 4,225                         | 3,893        | 9,139                       | 8,307        |
| Amortisation of intangible assets             | <u>902</u>                    | <u>1,572</u> | <u>1,899</u>                | <u>3,145</u> |

#### **4. TAXATION**

No provision for Hong Kong profits tax has been made as the Group has no assessable profit in Hong Kong for the six months ended 30 June 2010 (six months ended 30 June 2009: Nil).

The PRC enterprise income tax ("EIT") represents tax charges on the assessable profits of the PRC subsidiaries of the Group at the prevailing tax rates applicable. One of the two PRC subsidiaries of the Group, Langfang Huari Hengyu Home Co. Limited\* (廊坊華日恒宇家居有限公司) is categorised as a foreign investment enterprise and is entitled to preferential tax treatments ("Preferential Tax treatments") including full exemption from EIT for two years starting from its first profit-making year following by a 50% reduction for the next consecutive three years, and 2007 is its first profit-making year. The other PRC subsidiary of the Group, Lang Fang Tian Feng Home Co., Limited\* (廊坊天豐家居有限公司) is also entitled to Preferential Tax Treatments, 2005 was its first profit making year.

No EIT charge for the six months ended 30 June 2010 as all the PRC subsidiaries of the Group have recorded loss (six months ended 30 June 2009: Nil)

There was no significant unprovided deferred taxation for the six months ended 30 June 2010 (six months ended 30 June 2009: Nil).

Deferred tax had not been provided as there were no significant temporary differences at the period end date (six months ended 30 June 2009: Nil).

#### **5. INTERIM DIVIDEND**

No interim dividend has been paid or declared by the Company for the six months ended 30 June 2010 (six months ended 30 June 2009: Nil).

#### **6. LOSS PER SHARE**

The calculation of basic loss per share is based on the loss attributable to owners of the Company of approximately HK\$3,995,000 (2009: approximately HK\$67,074,000) and the weighted average 1,387,011,020 (2009: 1,237,993,340) ordinary shares in issue during the period.

Diluted loss per share for the six months ended 30 June 2010 has not been shown as the exercised or outstanding share options of the Company during the period had an anti-diluted effect on the basic loss per share for the period.

There was no diluting event existed during the six months ended 30 June 2009.

#### **7. SEGMENT INFORMATION**

The Group's reportable segments under HKFRS 8 are as follows:

- Direct retail of household products
- Indirect retail of household products and others

The following table presents revenue and results by the Group's operating segment for the six months ended 30 June 2010 and 2009 under review.

|  | Direct retail of<br>household products |                 | Indirect retail of<br>household<br>products and others |                 | Total           |                 |
|--|--|-----------------|--|-----------------|-----------------|-----------------|
|  | 2010                                   | 2009            | 2010   | 2009            | 2010            | 2009            |
|  | <i>HK\$'000</i>                        | <i>HK\$'000</i> | <i>HK\$'000</i>  | <i>HK\$'000</i> | <i>HK\$'000</i> | <i>HK\$'000</i> |
|  | (Unaudited)                            | (Unaudited)     | (Unaudited)  | (Unaudited)     | (Unaudited)     | (Unaudited)     |
| Segment revenue                                      |  |                 |  |                 |                 |                 |
| Sales to external customers                          | <u>8,367</u>                           | <u>22,110</u>   | <u>71,160</u>  | <u>97,795</u>   | <u>79,527</u>   | <u>119,905</u>  |
| Segment results                                      | <u>2,780</u>                           | <u>8,385</u>    | <u>12,600</u>  | <u>16,399</u>   | <u>15,380</u>   | <u>24,784</u>   |
| Interest income and unallocated<br>corporate revenue |  |                 |  |                 | 4,029           | 3,853           |
| Corporate and other unallocated expenses             |  |                 |  |                 | (23,402)        | (95,627)        |
| Finance costs  |  |                 |  |                 | <u>(2)</u>      | <u>(84)</u>     |
| (Loss) before taxation                               |  |                 |  |                 | (3,995)         | (67,074)        |
| Taxation   |  |                 |  |                 | <u>-</u>        | <u>-</u>        |
| Net (loss) for the period                            |  |                 |  |                 | <u>(3,995)</u>  | <u>(67,074)</u> |

## 8. INVENTORIES

|  | As At<br>30 June<br>2010<br><i>HK\$'000</i><br>(Unaudited) | As At<br>31 December<br>2009<br><i>HK\$'000</i><br>(Audited) |
|--|--|--|
| Raw materials                            | 31,948   | 100,244  |
| Work in progress                         | 67,445   | 25,318   |
| Finished goods                           | <u>13,995</u>  | <u>28,388</u>  |
|  | 113,388  | 153,950  |
| Less: Write down of obsolete inventories | <u>-</u>   | <u>(12,800)</u>  |
|  | <u>113,388</u>   | <u>141,150</u>   |



## 9. 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.

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

|               | As at<br>30 June<br>2010<br><i>HK\$'000</i><br>(Unaudited) | As at<br>31 December<br>2009<br><i>HK\$'000</i><br>(Audited) |
|---------------|--|--|
| 0 – 30 days   | 8,318  | 15,324   |
| 31 – 60 days  | 9,583  | 7,952  |
| 61 – 90 days  | 925  | 1,801  |
| 91 – 180 days | 294  | 4,813  |
| Over 180 days | <u>3,215</u>   | <u>11,267</u>  |
|               | <u>22,335</u>  | <u>41,157</u>  |

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

## 10. CASH AND BANK BALANCES

|                        | As at<br>30 June<br>2010<br><i>HK\$'000</i><br>(Unaudited) | As at<br>31 December<br>2009<br><i>HK\$'000</i><br>(Audited) |
|------------------------|--|--|
| Cash and bank balances | <u>15,792</u>  | <u>23,531</u>  |

At the balance sheet date, the cash and bank balances of the Group denominated in Renminbi ("RMB") amounted to approximately HK\$15,725,000 (as at 31 December 2009: approximately HK\$23,177,000). RMB is not freely convertible into other currencies. However, under the Foreign Exchange Control Regulations and the Administration of Settlement, Sale and Payment of Foreign Exchange Regulations of the PRC, the Group is permitted to exchange RMB for other currencies through banks which are authorised to conduct foreign exchange business.

## 11. TRADE PAYABLES

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

|               | As at<br><b>30 June<br/>2010</b><br><i>HK\$'000</i><br>(Unaudited) | As at<br>31 December<br>2009<br><i>HK\$'000</i><br>(Audited) |
|---------------|--|--|
| 0 – 30 days   | 6,159  | 11,381   |
| 31 – 60 days  | 2,733  | 10,762   |
| 61 – 90 days  | 548  | 2,674  |
| 91 – 180 days | 5,024  | 5,527  |
| Over 180 days | <u>27,004</u>  | <u>9,118</u>   |
|               | <u><b>41,468</b></u>   | <u><b>39,462</b></u>   |

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

## 12. SHARE CAPITAL

### Ordinary shares

|  | Par<br>Value<br><i>HK\$</i> | Number<br>of shares<br><i>'000</i> | Shares<br>capital<br><i>HK\$'000</i> |
|--|-----------------------------|------------------------------------|--------------------------------------|
| <b>Authorised:</b>   |                             |                                    |                                      |
| At 31 December 2009  | <u>0.002</u>                | <u>250,000,000</u>                 | <u>500,000</u>                       |
| At 1 January 2010  | <u>0.002</u>                | <u>250,000,000</u>                 | <u>500,000</u>                       |
| At 30 June 2010  | <u><b>0.002</b></u>         | <u><b>250,000,000</b></u>          | <u><b>500,000</b></u>                |
| <b>Issued and fully paid:</b>  |                             |                                    |                                      |
| At 31 December 2009  | <u>0.002</u>                | <u>1,384,800</u>                   | <u>2,769</u>                         |
| At 1 January 2010  | 0.002                       | 1,384,800                          | 2,769                                |
| Issue of shares upon exercise<br>of share options ( <i>Note(i)</i> ) | 0.002                       | <u>13,800</u>                      | <u>28</u>                            |
| At 30 June 2010  | <u><b>0.002</b></u>         | <u><b>1,398,600</b></u>            | <u><b>2,797</b></u>                  |

*Notes:*

- (i) On 2 June 2010, the subscription rights attached to 13,800,000 share options were exercised at the subscription price of HK\$0.1374 per share, resulting in the issue of 13,800,000 shares of HK\$0.002 each for a total cash consideration, before expenses, of HK\$1,896,120.

### **13. CONTINGENT LIABILITIES**

The Group had no contingent liabilities at the balance sheet date.

### **14. MATERIAL RELATED PARTY TRANSACTIONS**

The Group had no material related party transactions during the six months ended 30 June 2010 and 2009.

### **15. SUBSEQUENT EVENTS**

No significant subsequent event took place subsequent to 30 June 2010.

## **MANAGEMENT DISCUSSION AND ANALYSIS**

### **Financial and Business Review**

The global financial turmoil and economic crisis had severely hit the furniture business around the globe. The Group's business suffered a crunch due to the intensifying competitions in the industry, coupled with the hiking rents, wages and transportation costs.

To address the rising production cost on capacity surplus as a result of the previous overexpansion, the Group disposed of all its underperforming and loss-making assets in the second quarter, including all self-operated retail shops except for Lang Fang Huari Furniture International Exhibition Center (Hall A) and the Jixiangniao branded manufacturing and wholesale business mainly for low-end customers. Thus, the Group focused its financial and management resources on the manufacturing and sales of household products targeting mid- to high-end customers. Meanwhile, the Group realigned its marketing strategy from increasing the number of self-operated retail shops to improving the profitability of the existing franchised retail shops and self-operated retail shops.

Due to the higher lumber export duty imposed by Russia starting from year 2009, a major lumber exporter to the Group, the Group did not benefit from the drop in international raw material prices from the shrunk global demand. Cost control initiatives dedicated to increase the utilisation of raw materials in manufacturing process and technical trainings for the front-end employees were also adopted, aiming to cut down raw materials and labour costs to improve profitability of the Group.

To broaden distribution channels for higher market share, the Group will further expand its franchisee base. Also the Group will press forward its promotion campaigns such as discount offers, sales subsidies for franchisees, strategic partnership with domestic large-scale property developers and enhancing media propaganda for products.

Net loss of the Group for the first half of 2010 was HK\$3,995,000, a decline of approximately 94% from the same period of 2009. Net sales amounted to RMB69,761,000, dropped by RMB35,754,000 or 33.89% from RMB105,515,000 for the first half of 2009. The decrease in sales was primarily attributable to the weak retail demand and intensified market competitions, and also to the decreased sales from direct retail as a result of the disposal of self-operated retail shops.

The Group's total operating expenditure for the first half of 2010 was approximately HK\$23,402,000, a decrease of approximately HK\$27,703,000 from approximately HK\$51,105,000 for the corresponding period last year.

The revenue from indirect retail, the Group's core activities, recorded a decrease of approximately RMB23,638,000 during the first half of the year as compared to RMB86,059,000 for the same period last year. The revenue from direct retail of self-operated retail shops for the first half of the year decreased by approximately RMB12,116,000 from RMB19,456,000 for the same period last year, mainly attributable to the disposal of all self-operated retail shops except for Lang Fang Huari Furniture International Exhibition Center (Hall A) in the second quarter. The gross profit margin for the first half of 2010 dropped to 19.34% from 20.67% for the first half of 2009, primarily attributable to the downward adjustment to factory prices of products to better support distributors, and partially due to the disposal of self-operated retail shops in the second quarter which enjoyed a higher gross profit margin of direct retail than that of indirect retail.

## **Outlook**

The global economy is showing recovering signs in the wake of the economic stimulus packages launched around the world. Strong growth is still expected in China in the coming months, where real estate market is fast growing with the accelerating paces of urbanisation. However, the macro control policies of China government to suppress the overheating real estate markets in certain major domestic cities are expected to have an impact on the Group since its customers are mainly based on first – and second – tier cities.

At the same time, the domestic demand for quality furniture, especially environment-friendly and healthy solid wood furniture, will continue its growth momentum backed by the soaring Chinese middle class with surging disposable income, as well as people's constant pursuit of higher lifestyle. To cater for the trend and market demand, the Group is pressing ahead the development of new products.

We are confident in tiding over the current difficulties and marching with strides toward our success in the long run.

## **Business Disposal**

### **Disposal of the Jixiangniao Furniture Factory\* (吉祥鳥家具廠) owned by Langfang Huari Hengyu Home Co., Ltd\* (廊坊華日恒宇家居有限公司) (“Hengyu”) (the “Disposal”)**

On 19 May 2010, Hengyu entered into a disposal agreement with Mr. Liu Qian Jin (柳前進先生) (“Mr. Liu”), an independent third party in respect of the Disposal, pursuant to which Hengyu agreed to dispose of and Mr. Liu agreed to acquire, the Jixiangniao Furniture Factory\* (吉祥鳥家具廠), a factory engages in the business of manufacturing and wholesaling of sofa, tea tables and living room furniture, and the business of Jixiangniao Furniture Factory\* (吉祥鳥家具廠) wholly owned by Hengyu. The consideration for the Disposal is RMB3,400,366.97 (approximately HK\$3,867,781.41). The gross proceeds of RMB3,400,366.97 (before deducting all expenses) from the Disposal has been applied for offsetting the amounts due to Mr. Liu and the remaining balance has been used as the Group’s general working capital. For details, please refer to the announcement of the Company dated 19 May 2010.

### **Disposal of the Beijing Business by Hengyu**

On 14 June 2010, Hengyu entered into a disposal agreement (the “Beijing Disposal Agreement”) with Mr. Zhou Xu En (“Mr. Zhou”), an Independent Third Party save as the business relationship with Lang Fang Huari Furniture Joint Stock Co., Ltd.\* (廊坊華日家具股份有限公司) in respect of the disposal of the furniture retail outlet in Beijing and its business owned by Hengyu (the “Beijing Business”) (the “Beijing Disposal”), pursuant to the Beijing Disposal Agreement, Hengyu agreed to dispose of and Mr. Zhou agreed to acquire, the Beijing Business. The consideration for the Beijing Disposal is RMB49,683.53 (approximately HK\$56,515.02). The gross proceeds of RMB49,683.53 from the Beijing Disposal has been used as the Group’s general working capital. For details, please refer to the announcement of the Company dated 14 June 2010.

### **Disposal of the Shanghai Business by Hengyu**

On 14 June 2010, Hengyu entered into a disposal agreement (the “Shanghai Disposal Agreement”) with Mr. Zhang Ming Liang (“Mr. Zhang”), an Independent Third Party in respect of the disposal of the furniture retail outlet in Shanghai and its business owned by Hengyu (the “Shanghai Business”) (the “Shanghai Disposal”), pursuant to the Shanghai Disposal Agreement, Hengyu agreed to dispose of and Mr. Zhang agreed to acquire, the Shanghai Business. The consideration for the Shanghai Disposal is RMB209,319.33 (approximately HK\$238,100.74). The gross proceeds of RMB209,319.33 from the Shanghai Disposal has been used as the Group’s general working capital. For details, please refer to the announcement of the Company dated 14 June 2010.

## **Disposal of the Dalian Business by Hengyu**

On 14 June 2010, Hengyu entered into a disposal agreement (the “Dalian Disposal Agreement”) with Mr. Huang Bing Xiu (“Mr. Huang”), an Independent Third Party in respect of the disposal of the furniture retail outlet in Dalian and its business owned by Hengyu (the “Dalian Business”) (the “Dalian Disposal”), pursuant to the Dalian Disposal Agreement, Hengyu agreed to dispose of and Mr. Huang agreed to acquire, the Dalian Business. The consideration for the Dalian Disposal is RMB1 (approximately HK\$1.1375). The gross proceeds of RMB1 from the Dalian Disposal has been used as the Group’s general working capital. For details, please refer to the announcement of the Company dated 14 June 2010.

Save as disclosed above, the Group did not have any other acquisition or disposal during the period.

## **Liquidity and Financial Resources**

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

As at 30 June 2010, cash and bank balances of the Group was approximately HK\$15,792,000.

As at 30 June 2010, total borrowing of the Group amounted to approximately HK\$35,000 (as at 30 June 2009: approximately HK\$52,000), representing the obligation under a finance lease contract with an average interest rate of approximately 5% per annum and average lease term of approximately five years.

## **Employees Information**

As at 30 June 2010, the Group had employed 5 staffs in Hong Kong and 1,185 staffs in PRC (as at 30 June 2009: 5 staffs in Hong Kong and 1,700 staffs in PRC), they were remunerated in accordance with their performance and market condition. Other benefits available to eligible employees include retirement benefits and medical insurance schemes. Total staff costs for the six months ended 30 June 2010 amounted to approximately HK\$10,214,000 (2009: approximately HK\$13,603,000).

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.

## **GEARING RATIO**

As at 30 June 2010, the Group’s gearing ratio was approximately 0.01% representing a percentage of long term liabilities over total assets (as at 30 June 2009: approximately 0.01%).

## **DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES**

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

As at 30 June 2010, none of the Directors or chief executives of the Company held any share options.

## **CODE OF CONDUCT REGARDING SECURITIES TRANSACTIONS BY DIRECTORS**

During the six months ended 30 June 2010, the Company had adopted a code of conduct regarding securities transactions by directors on terms no less exacting than the required standard of dealings as set out in Rules 5.48 to 5.67 of the GEM Listing Rules. The Company also had made specific enquiry of all Directors and the Company was not aware of any non-compliance with the required standard of dealings and its code of conduct regarding securities transactions by directors.

## **DISCLOSURE OF INTEREST AS PER REGISTERS KEPT PURSUANT TO THE SECURITIES FUTURES ORDINANCE ("THE SFO")**

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

As at 30 June 2010, the interests and short positions of the Directors and chief executive of the Company in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO), which are required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 & 8 of Part XV of the SFO (including interests and short positions which they are taken or deemed to have under such provisions of the SFO) or which are required pursuant to Section 352 of the SFO to be entered in the register referred to therein, or as otherwise notified to the Company and the Stock Exchange pursuant to the required standard of dealings by directors as referred to in Rules 5.46 of the GEM Listing Rules were as follows:

*Long positions in ordinary shares of HK\$0.002 each of the Company*

| Name of director | Number of shares held, capacity and nature of interest |                                  |                                |                        | Approximate percentage of the Company's total issued share capital<br>(Note 1) |               |
|------------------|--|----------------------------------|--------------------------------|------------------------|--|---------------|
|                  | Directly beneficially owned                            | Through spouse or minor children | Through controlled corporation | Beneficiary of a trust | Total  |               |
| Mr. Li Ge        | <u>37,012,000</u>                                      | <u>–</u>                         | <u>351,518,000</u>             | <u>–</u>               | <u>388,530,000</u>   | <u>27.78%</u> |

*Note:*

- (1) The percentage is calculated by dividing the number of shares interested or deemed to be interested by the existing 1,398,599,970 issued shares as at 30 June 2010.

Save as disclosed above, as at 30 June 2010, none of the Directors and chief executive of the Company was, under Divisions 7 & 8 of Part XV of the SFO, taken to be interested or deemed to have any other interests or short positions in the shares, underlying shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) that were required to be entered into the register kept by the Company pursuant to Section 352 of the SFO or were required to be notified to the Company and the Stock Exchange pursuant to the GEM Listing Rules.

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

So far as were known to the Directors or chief executive of the Company, as at 30 June 2010, the following persons (other than the Directors and chief executive of the Company as disclosed above) had interests and/or short positions of 5% or more of the shares and underlying shares of the Company as recorded in the register of interests required to be kept by the Company pursuant to Section 336 of the SFO:



*Long positions in the ordinary shares of HK\$0.002 each of the Company*

| <b>Name of shareholders</b> | <b>Nature and capacity of interest</b> | <b>Number of shares held</b> | <b>Approximate percentage of interest<br/>(Note 1)</b> |
|-----------------------------|--|------------------------------|--|
| True Allied Assets Limited  | Beneficial owner                       | 351,518,000                  | 25.13%   |
| Mr. Li Ge (Note 2)          | Interest of controlled corporation     | 351,518,000                  | 25.13%   |
|                             | Beneficial owner                       | 37,012,000                   | 2.65%  |

*Notes:*

- (1) The percentage is calculated by dividing the number of shares interested or deemed to be interested by the existing 1,398,599,970 issued shares as at 30 June 2010.
- (2) Mr. Li Ge is interested by virtue of his 100% beneficial interest in True Allied Assets Limited.

Save as disclosed above, as at 30 June 2010, the Board is not aware of any other persons, other than the Directors and chief executives of the Company, whose interests are set out in the section headed “Directors’ and chief executives’ interests and short positions in shares, underlying shares and debentures” above, had interests or short positions in the shares or underlying shares of the Company that was required to be recorded pursuant to Section 336 to the SFO.

## **CHARGE ON GROUP’S ASSETS**

Save as the finance lease contract for the Group’s office equipment, the Group did not have any other charge on its assets as at 30 June 2010 (2009: Nil).

## **FOREIGN CURRENCY RISK**

As most of the Group’s monetary assets and liabilities were denominated in Renminbi and Hong Kong dollars, the exchange rate risks of the Group were considered to be minimal. As at 30 June 2010, no related hedges were made by the Group.

## **CONTINGENT LIABILITIES**

The Group had no contingent liabilities at the balance sheet date.

## **AUDIT COMMITTEE**

The Company has established an audit committee in July 2000 with its written terms of reference pursuant to Rules 5.28 to 5.33 of the GEM Listing Rules. Approved by the then directors attending the Board meeting held on 7 December 2006, the terms of reference set out in “A Guide for Effective Audit Committees”, published by HKICPA in February 2002, were adopted as written terms of reference for the audit committee of the Company. As at 30 June 2010, the audit committee comprised three members, namely Mr. LEE Yuen Kwong, Mr. YANG Dongli and Mr. YANG Jie, being independent non-executive Directors of the Company.

The primary duties of the audit committee are to review and supervise the financial reporting process and internal control systems of the Group and to provide advice and comments to the Board. The audit committee has reviewed the Group’s interim results announcement and report for the six months ended 30 June 2010 and provided advice and recommendations to the Board. After the review of the financial statements, the members of the audit committee were of the opinion that such statements comply with the applicable accounting standards, the GEM Listing Rules and other applicable laws and regulations and that adequate disclosure had been made.

## **CORPORATE GOVERNANCE PRACTICES**

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

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

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

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

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

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

Save as disclosed above, for the six months ended 30 June 2010, the Company complied with the code provisions of the CG Code.

## SHARE OPTION

On 22 January 2010, the Company has granted 110,400,000 share options pursuant to the Company's Share Option Scheme adopted on 24 May 2002. The share options entitle the offerees to subscribe for a total of 110,400,000 ordinary shares of HK\$0.002 each in the capital of the Company upon exercise in full. The exercise price of share options granted is HK\$0.1374, and the validity and exercise period is two years which commenced from the date of grant to 21 January 2012.

For the six months ended 30 June 2010, the details of the share option being granted, exercised, outstanding and lapsed are as follows:

| Name and category of participants | Position held with the Group and the Company  | Date of grant of share options* | Exercise period of share options   | Number of unlisted share options |                             |                                     |                                | Share price of the Company      |  |   |
|-----------------------------------|---|---------------------------------|------------------------------------|----------------------------------|-----------------------------|-------------------------------------|--------------------------------|---------------------------------|--|---|
|                                   |   |                                 |                                    | Granted during the period        | Exercised during the period | Cancelled/ lapsed during the period | Outstanding as at 30 June 2010 | Exercise price of share options | As at the date of grant of share options | As at the date of exercise of share options |
|                                   |   |                                 |                                    |                                  |                             |                                     |                                | HK\$                            | HK\$                                     | HK\$  |
|                                   |   |                                 |                                    |                                  |                             |                                     |                                |                                 |  |   |
| Employees                         |   |                                 |                                    |                                  |                             |                                     |                                |                                 |  |   |
| Zhao Shiping                      | Director and General Manager of Lang Fang Tian Feng Home Co., Limited and Langfang Huari Hengyu Home Co., Ltd. (both companies are subsidiaries of the Company) | 22 January 2010                 | 22 January 2010 to 21 January 2012 | 13,800,000                       | –                           | –                                   | 13,800,000                     | 0.1374 per share                | 0.1310 per share                         | N/A   |
| Shao Xiu Zhen                     | Account Manager of Lang Fang Tian Feng Home Co., Limited and Langfang Huari Hengyu Home Co., Ltd.   | 22 January 2010                 | 22 January 2010 to 21 January 2012 | 13,800,000                       | –                           | –                                   | 13,800,000                     | 0.1374 per share                | 0.1310 per share                         | N/A   |

| Name and category of participants | Position held with the Group and the Company | Date of grant of share options* | Exercise period of share options   | Number of unlisted share options |                             |                                     |                                | Share price of the Company      |  |   |
|-----------------------------------|--|---------------------------------|------------------------------------|----------------------------------|-----------------------------|-------------------------------------|--------------------------------|---------------------------------|--|---|
|                                   |  |                                 |                                    | Granted during the period        | Exercised during the period | Cancelled/ lapsed during the period | Outstanding as at 30 June 2010 | Exercise price of share options | As at the date of grant of share options | As at the date of exercise of share options |
|                                   |  |                                 |                                    |                                  |                             |                                     |                                | HK\$                            | HK\$                                     | HK\$  |
|                                   |  |                                 |                                    |                                  |                             |                                     |                                |                                 |  |   |
| Other Participants                |  |                                 |                                    |                                  |                             |                                     |                                |                                 |  |   |
| Zheng Li Wen                      | Marketing Promotion Consultant               | 22 January 2010                 | 22 January 2010 to 21 January 2012 | 13,800,000                       | (13,800,000)                | –                                   | –                              | 0.1374 per share                | 0.1310 per share                         | 0.1370 per share                            |
| Fung Chan Man                     | Financial Advisor                            | 22 January 2010                 | 22 January 2010 to 21 January 2012 | 13,800,000                       | –                           | –                                   | 13,800,000                     | 0.1374 per share                | 0.1310 per share                         | N/A   |
| Libon Fung                        | Accounting Advisor                           | 22 January 2010                 | 22 January 2010 to 21 January 2012 | 13,800,000                       | –                           | –                                   | 13,800,000                     | 0.1374 per share                | 0.1310 per share                         | N/A   |
| Zhou Tian Tang                    | Furniture Design Consultant                  | 22 January 2010                 | 22 January 2010 to 21 January 2012 | 13,800,000                       | –                           | –                                   | 13,800,000                     | 0.1374 per share                | 0.1310 per share                         | N/A   |
| Zhou Xu En                        | Sales Consultant                             | 22 January 2010                 | 22 January 2010 to 21 January 2012 | 13,800,000                       | –                           | –                                   | 13,800,000                     | 0.1374 per share                | 0.1310 per share                         | N/A   |
| Xiu Jun Cheng                     | Wood Specialist                              | 22 January 2010                 | 22 January 2010 to 21 January 2012 | 13,800,000                       | –                           | –                                   | 13,800,000                     | 0.1374 per share                | 0.1310 per share                         | N/A   |
|                                   |  |                                 |                                    | 110,400,000                      | (13,800,000)                | –                                   | 96,600,000                     |                                 |  |   |

\* *There is no vesting period of the share options.*

## PURCHASES, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

For the six months ended 30 June 2010, there was no purchase, sale or redemption by the Company, or any of its subsidiaries, of the Company's listed securities.

## COMPETING INTEREST

None of the Directors or the management shareholders of the Company (as defined in the GEM Listing Rules) or their respective associates had any interest in any business which competed or might compete with the business of the Group for the six months ended 30 June 2010.

## RE-ELECTION OF DIRECTORS

At the annual general meeting of the Company held on 6 May 2010, all the incumbent Directors were re-elected as Directors by the shareholders of the Company.

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

Hong Kong, 10 August 2010

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

*This announcement will remain on the GEM website at <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>.*

\* *For identification purposes only*