

# 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 2009

### CHARACTERISTICS OF THE GROWTH ENTERPRISE MARKET (THE “GEM”) OF THE STOCK EXCHANGE OF HONG KONG LIMITED (THE “STOCK EXCHANGE”)

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

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

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

## INTERIM RESULTS (UNAUDITED)

The board of directors (the “Board”) of FAVA International Holdings Limited (the “Company”) 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 2009 together with the comparative figures.

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

For the three months and six months ended 30 June 2009

	Notes	Three months ended 30 June		Six months ended 30 June	
		2009 HK\$'000	2008 HK\$'000 (Restated)	2009 HK\$'000	2008 HK\$'000 (Restated)
Turnover		<b>61,340</b>	161,601	<b>119,905</b>	266,143
Cost of sales		<b>(49,989)</b>	(106,936)	<b>(95,121)</b>	(177,770)
Gross profit		<b>11,351</b>	54,665	<b>24,784</b>	88,373
Other revenue		<b>3,605</b>	493	<b>3,853</b>	737
Impairment loss in respect of goodwill	3	<b>(29,599)</b>	–	<b>(29,599)</b>	–
Written down of inventories		<b>(14,923)</b>	–	<b>(14,923)</b>	–
Selling and distribution costs		<b>(21,528)</b>	(3,786)	<b>(32,751)</b>	(10,800)
Administrative expenses		<b>(11,148)</b>	(11,405)	<b>(18,117)</b>	(16,452)
Other operating expenses		<b>(129)</b>	(43)	<b>(237)</b>	(43)
(Loss) profit from operations		<b>(62,371)</b>	39,924	<b>(66,990)</b>	61,815
Finance costs		<b>(67)</b>	(48)	<b>(84)</b>	(175)
(Loss) profit before taxation		<b>(62,438)</b>	39,876	<b>(67,074)</b>	61,640
Taxation	4	–	–	–	–
Net (loss) profit for the period		<b>(62,438)</b>	39,876	<b>(67,074)</b>	61,640
Interim dividend	5	–	–	–	–
Other comprehensive income:					
Exchange differences arising from translation of financial statements of subsidiaries		<b>14</b>	9,179	<b>(475)</b>	21,316
Total comprehensive income for the period		<b>(62,424)</b>	49,055	<b>(67,549)</b>	82,956
		<i>HK cents</i>	<i>HK cents</i>	<i>HK cents</i>	<i>HK cents</i>
(Loss) earnings per share – basic and diluted	6	<b>(5.04)</b>	3.3	<b>(5.42)</b>	5.1

## CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

		30 June 2009 <i>HK\$'000</i> (Unaudited)	31 December 2008 <i>HK\$'000</i> (Audited)
<b>NON-CURRENT ASSETS</b>			
Property, plant and equipment		113,251	121,720
Goodwill	3	34,324	64,006
Intangible assets	8	17,865	10,778
Long term prepayments	9	21,708	11,288
		187,148	207,792
<b>CURRENT ASSETS</b>			
Inventories	10	144,623	143,531
Trade and bills receivables	11	47,976	38,826
Prepayments, deposits and other receivables		102,765	50,539
Cash and bank balances	12	6,543	54,977
		301,907	287,873
<b>CURRENT LIABILITIES</b>			
Trade payables	13	28,590	20,354
Other payables and accrued liabilities		58,912	42,531
Receipts in advance		63,536	44,120
Amount due to a director		–	949
Obligations under finance lease – due within one year		16	16
		151,054	107,970
<b>NET CURRENT ASSETS</b>		<b>150,853</b>	<b>179,903</b>
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		<b>338,001</b>	<b>387,695</b>
<b>NON-CURRENT LIABILITIES</b>			
Obligations under finance lease – due after one year		36	44
<b>NET ASSETS</b>		<b>337,965</b>	<b>387,651</b>
<b>CAPITAL AND RESERVES</b>			
Share capital	14	2,769	2,405
Reserves		335,196	385,246
<b>Total equity attributable to equity holders of the Company</b>		<b>337,965</b>	<b>387,651</b>

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

	Share Capital <i>HK\$'000</i>	Share Contributed Premium <i>HK\$'000</i>	Share Contributed Surplus <i>HK\$'000</i>	Retained Profits <i>HK\$'000</i>	Exchange Reserve <i>HK\$'000</i>	Statutory Reserves <i>HK\$'000</i>	Total <i>HK\$'000</i>
<i>For the six months ended 30 June 2008</i>							
At 1 January 2008	2,405	151,778	36,000	69,103	16,720	25,779	301,785
Exchange differences arising from translation of financial statements of subsidiaries	-	-	-	-	21,316	-	21,316
Net profit for the six months ended 30 June 2008	-	-	-	61,640	-	-	61,640
At 30 June 2008	<u>2,405</u>	<u>151,778</u>	<u>36,000</u>	<u>130,743</u>	<u>38,036</u>	<u>25,779</u>	<u>384,741</u>
<i>For the six months ended 30 June 2009</i>							
At 1 January 2009	2,405	151,778	36,000	119,539	36,448	41,481	387,651
Issue of shares	364	-	-	-	-	-	364
Premium arising from issue of new shares, net of expenses	-	17,499	-	-	-	-	17,499
Exchange differences arising from translation of financial statements of subsidiaries	-	-	-	-	(475)	-	(475)
Net loss for the six months ended 30 June 2009	-	-	-	(67,074)	-	-	(67,074)
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>

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

	<b>2009</b> <i>HK\$'000</i>	2008 <i>HK\$'000</i>
NET CASH (OUTFLOWS) INFLOWS FROM OPERATING ACTIVITIES	<b>(58,251)</b>	10,555
NET CASH OUTFLOWS FROM INVESTING ACTIVITIES	<b>(8,046)</b>	(3,544)
NET CASH INFLOWS FROM FINANCING ACTIVITIES	<b>17,863</b>	—
	<hr/>	<hr/>
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS	<b>(48,434)</b>	7,011
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE PERIOD	<b>54,977</b>	58,276
	<hr/>	<hr/>
CASH AND CASH EQUIVALENTS AT END OF THE PERIOD	<b>6,543</b>	65,287
	<hr/> <hr/>	<hr/> <hr/>
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS		
Cash and bank balances	<b>6,543</b>	65,287
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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 2009 are consistent with those adopted in the annual report of the Company for the year ended 31 December 2008, except for adoption of new and revised Hong Kong Financial Reporting Standards ("HKFRSs") issued by the HKICPA which are effective to the Group for accounting periods beginning on or after 1st January, 2009. The adoption of the new HKFRSs has no material impact on the Group's results and financial position for the current or prior periods. Nevertheless, certain changes in disclosures have been adopted by the Group in compliance with the following new and revised HKFRSs:

HKFRS 8 is a disclosure Standard that has resulted in a redesignation of the Group's reportable segments (Note 7), but has had no impact on the reported results or financial position of the Group.

HKAS 1 (revised) has introduced a number of terminology changes (including revised titles for the condensed consolidated financial statements) and has resulted in a number of changes in presentation and disclosure. However, HKAS 1 (revised) has no impact on the reported results or financial position of the Group.

## 2. (LOSS) PROFITS FOR THE PERIOD

	Three months ended		Six months ended	
	30 June		30 June	
	2009	2008	2009	2008
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Cost of sales	<b>49,989</b>	106,936	<b>95,121</b>	177,770
Depreciation on property, plant and equipment	<b>3,893</b>	8,051	<b>8,307</b>	9,949
Amortisation of intangible assets	<b>1,572</b>	583	<b>3,145</b>	1,139

### **3. IMPAIRMENT LOSS IN RESPECT OF GOODWILL**

During the period ended 30 June 2009, with regard to the current market situation in the retail business of household products, the Directors reviewed the carrying amount of goodwill arising from the acquisition of household products retail business of Hall A. The recoverable amount of household products retail business cash generating unit of Hall A has been determined based on a value in use calculation using cash flow projections based on financial budget covering five years approved by senior management. The discount rate applied to the cash flow projection is 12% per annum.

The Group has made approximately HK\$29,599,000 impairment in respect of the goodwill arising from the acquisition of Hall A. The main factor contributing to the impairment of household products retail business cash generating unit was the failure of the household products retail business to contribute to sales to the extent that had predicted.

### **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 2009 (six months ended 30 June 2008: 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 2009 as all the PRC subsidiaries of the Group have recorded loss (six months ended 30 June 2008: Nil)

There was no significant unprovided deferred taxation for the six months ended 30 June 2009 (six months ended 30 June 2008: Nil).

Deferred tax had not been provided as there were no significant temporary differences at the period end date (six months ended 30 June 2008: Nil).

### **5. INTERIM DIVIDEND**

No interim dividend has been paid or declared by the Company for the six months ended 30 June 2009 (six months ended 30 June 2008: Nil).

## **6. (LOSS) EARNINGS PER SHARE**

The calculation of the basic (loss) earnings per share is based on the Group's net loss for the six months ended 30 June 2009 of approximately HK\$67,074,000 (six months ended 30 June 2008: net profit of approximately HK\$61,640,000), and the weighted average of 1,237,993,340 ordinary shares (six months ended 30 June 2008: 1,202,799,970 ordinary shares) in issue during the six months ended 30 June 2009 after adjusting the effects of the subscription of new shares on 27 May 2009.

There was no diluting event existed during the six months ended 30 June 2009 and 2008.

## **7. SEGMENT INFORMATION**

The Group has adopted HKFRS 8 Operating Segments with effect from 1 January 2009. HKFRS 8 requires operating segment to be identified on the basis of internal reports about the components of the Group that are regularly reviewed by the chief operating decision maker in order to allocate resources to the segment and to assess its performance. In contrast, the predecessor Standard (HKAS 14 Segment Reporting) required an entity to identify two sets of segments (business and geographical), using a risks and rewards approach, with the entity's "system of internal financing reporting to key management personnel" serving only as the starting point for the identification of such segments. As a result, following the adoption of HKFRS 8, the identification of the Group's reportable segments has changed.

The Group's reportable segments under HKFRS 8 do not differ materially from those previously disclosed under HKAS 14. In prior years, segment information reported externally was analysed by the types of the Group's core activities which consisted of Direct retail of household products and Indirect retail of household products. The Directors of the Company considered that the current segment presentation provides sufficient and appropriate information to the Group's executive directors for the allocation of resources to the segment and to assess its performance, as the current presentation has already focused specifically on the category of customer for household products. The Group's reportable segments under HKFRS 8 are therefore 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 2009 and 2008 under review.

	Direct retail of household products		Indirect retail of household products and others		Total	
	2009 HK\$'000 (Unaudited)	2008 HK\$'000 (Unaudited)	2009 HK\$'000 (Unaudited)	2008 HK\$'000 (Unaudited)	2009 HK\$'000 (Unaudited)	2008 HK\$'000 (Unaudited)
Segment revenue						
Sales to external customers	<u>22,110</u>	<u>43,934</u>	<u>97,795</u>	<u>222,209</u>	<u>119,905</u>	<u>266,143</u>
Segment results	<u>8,385</u>	<u>19,591</u>	<u>16,399</u>	<u>68,782</u>	<u>24,784</u>	88,373
Interest income and unallocated corporate revenue					3,853	737
Corporate and other unallocated expenses					(95,627)	(27,295)
Finance costs					<u>(84)</u>	<u>(175)</u>
(Loss) profit before taxation					<u>(67,074)</u>	61,640
Taxation					<u>-</u>	<u>-</u>
Net (loss) profit for the period					<u>(67,074)</u>	<u>61,640</u>

## 8. INTANGIBLE ASSETS

During the period ended 30 June 2009, the Group entered into a supplementary agreement with Lang Fang Huari Furniture Joint Stock Co., Ltd for adjusted consideration of trademark of approximately HK\$10,220,000.

## 9. LONG TERM PREPAYMENTS

During the period ended 30 June 2009, the Group entered into a supplementary agreement with Lang Fang Huari Furniture Joint Stock Co., Ltd for revised rental payment of production plant and exhibition halls (Hall A) of approximately HK\$15,033,000.

## 10. INVENTORIES

The written down of inventories made due to a decrease in the estimated net realisable value as a result of deterioration in raw materials.

## 11. TRADE AND BILLS RECEIVABLES

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

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

	As at <b>30 June</b> <b>2009</b> <i>HK\$'000</i> <b>(Unaudited)</b>	As at 31 December 2008 <i>HK\$'000</i> (Audited)
0 – 30 days	<b>6,101</b>	23,111
31 – 60 days	<b>7,012</b>	2,095
61 – 90 days	<b>367</b>	2,420
91 – 180 days	<b>9,993</b>	1,965
Over 180 days	<b>24,503</b>	9,235
	<b>47,976</b>	38,826

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

## 12. CASH AND BANK BALANCES

	As at <b>30 June</b> <b>2009</b> <i>HK\$'000</i> <b>(Unaudited)</b>	As at 31 December 2008 <i>HK\$'000</i> (Audited)
Cash and bank balances	<b>6,543</b>	54,977

At the balance sheet date, the cash and bank balances of the Group denominated in Renminbi (“RMB”) amounted to approximately HK\$5,233,000 (as at 31 December 2008: approximately HK\$54,739,000). 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.

### 13. 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 <b>30 June 2009</b> <i>HK\$'000</i> (Unaudited)	As at 31 December 2008 <i>HK\$'000</i> (Audited)
0 – 30 days	7,499	6,126
31 – 60 days	11,022	2,641
61 – 90 days	2,879	2,362
91 – 180 days	2,421	4,280
Over 180 days	4,769	4,945
	<u>28,590</u>	<u>20,354</u>

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

### 14. SHARE CAPITAL

#### Ordinary shares

	Par value <i>HK\$</i>	Number of shares <i>'000</i>	Share capital <i>HK\$'000</i>
<b>Authorised:</b>			
At 31 December 2008	<u>0.002</u>	<u>250,000,000</u>	<u>500,000</u>
At 1 January 2009	0.002	250,000,000	500,000
At 30 June 2009	<u>0.002</u>	<u>250,000,000</u>	<u>500,000</u>
<b>Issued and fully paid:</b>			
At 31 December 2008	<u>0.002</u>	<u>1,202,800</u>	<u>2,405</u>
At 1 January 2009	0.002	1,202,800	2,405
Placing of shares ( <i>Note (i)</i> )	0.002	182,000	364
At 30 June 2009	<u>0.002</u>	<u>1,384,800</u>	<u>2,769</u>

*Notes:*

- (i) On 18 May 2009, the placing agent, on behalf of the Company placed 182,000,000 shares of HK\$0.002 each at a placing price of HK\$0.102 each to not less than six investors and on 27 May 2009, not less than six investors subscribed 182,000,000 new shares of the Company at a subscription price at HK\$0.102 per share of the Company. The Company received net proceeds from the subscription of approximately HK\$17,863,000.

## **15. CONTINGENT LIABILITIES**

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

## **16. MATERIAL RELATED PARTY TRANSACTIONS**

The Group had no material related party transactions during the six months ended 30 June 2009 and 2008.

## **17. SUBSEQUENT EVENTS**

No significant subsequent event took place subsequent to 30 June 2009.

## **MANAGEMENT DISCUSSION AND ANALYSIS**

### **Financial and Business Review**

The sagging economic situation has created an adverse impact on the entire furniture industry since the first half of 2008. Despite the weakening performance of the entire industry, the Group continued to commit working capital in order to maintain the relatively stable sales channels.

During the period under review, the global financial turmoil and economic crisis had severely hit the furniture business around the globe. Accordingly, the Group's sales prices came under further pressure due to our customers and intensifying pricing competition in the industry. A series of pricing and promotional activities have been launched since the second half of 2008, while the gross profit margin of the Group was 20.67% in the first half of 2009, a decrease of 12.53% from the corresponding period last year.

Net loss attributable to the equity holders of the Group was HK\$67,074,000 for the first half of 2009, while net profit for the corresponding period last year was HK\$61,640,000.

Net sales for the first half of 2009 was RMB105,515,000, a decrease of RMB135,127,000 or 56.15% from RMB240,642,000 in the first half of 2008. The decrease in sales was primarily attributable to the weak retail demand as a result of the global economic downturn triggered by the subprime mortgage meltdown in the US. To confront market challenge and competition, we were dedicated to expand our distribution channels further and product varieties in the market, and dispose of less efficient assets.

The Group's total operating expenditure for the first half of 2009 was approximately HK\$95,627,000, an increase of approximately HK\$68,332,000 from approximately HK\$27,295,000 for the corresponding period last year.

The gross profit margin of the indirect retail operation slid to 18.56% in the first half of the year from 31.5% in the first half of 2008, while a loss of approximately HK\$67,074,000 was posted as a whole was for the first half of the year primarily attributable to the worsening operating environment resulting in the fall in sales, reduced output resulting in the reduction in the production occupancy rate of plants and the increase in the unit production costs as well as the grant of sales subsidies to franchised dealers resulting in the rise in cost of sales and the impairment in respect of the goodwill arising from the acquisition of Hall A.

### **Retail Business**

The Group has discontinued the expansion of the self-operated retail business due to the sluggish property market in the PRC. However, continuing to expand and strengthen its franchising business that has been operating successfully over years remains to be the major retail strategy of the Group for the PRC in the next several years.

During the first half of the year, turnover of the self-owned direct sale shop business amounted to approximately RMB19.46 million, of which turnover of the flagship shop was approximately RMB7.45 million, while turnover of direct sale shops acquired from "Huari" in the second quarter of 2008 was approximately RMB12.01 million.

Turnover of Jixiangniao grew from HK\$7,220,000 in the first quarter to HK\$17,600,000 in the second quarter, representing a growth of 143.77%, while gross profit margin dropped from 14.86% in the first quarter to 6.73% this quarter. As at 30 June 2009, gross profit of Jixiangniao amounted to approximately RMB1,043,000, representing a decrease of 20.64% over the corresponding period last year, and net loss amounted to approximately RMB755,000.

### **Outlook**

It is expected that the overall economic conditions and industrial environment will remain challenging in 2009. In spite of such difficult operating environment, the Group will try to stop the occurrence of loss in certain period through the management structure reorganization and the disposal of less efficient assets.

### **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 2009, cash and bank balances of the Group was approximately HK\$6,543,000.

As at 30 June 2009, total borrowing of the Group amounted to approximately HK\$69,000 (as at 30 June 2008: approximately HK\$69,000), 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 2009, the Group had employed 5 staffs in Hong Kong and 1,700 staffs in PRC (as at 30 June 2008: 6 staffs in Hong Kong and 346 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 2009 amounted to approximately HK\$13,603,000 (2008: approximately HK\$4,309,000).

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

In addition, for the six months ended 30 June 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: 1,846 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 six months ended 30 June 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\$2,564,000 per month).

### **GEARING RATIO**

As at 30 June 2009, the Group's gearing ratio was 0.01% representing a percentage of long term liabilities over total assets (as at 30 June 2008: approximately 8.3%).

### **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 2009, 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 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.

## 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 2009, the interests and short positions of the Directors and chief executive of the Company in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO), which are required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 & 8 of Part XV of the SFO (including interests and short positions which they are taken or deemed to have under such provisions of the SFO) or which are required pursuant to Section 352 of the SFO to be entered in the register referred to therein, or as otherwise notified to the Company and the Stock Exchange pursuant to the required standard of dealings by directors as referred to in Rules 5.48 to 5.67 of the GEM Listing Rules were as follows:

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

Name of director	Number of shares held, capacity and nature of interest				Total	Approximate percentage of the Company’s total issued share capital
	Directly beneficially owned	Through spouse or minor children	Through controlled corporation	Beneficiary of a trust		
Mr. Li Ge	<u>37,012,000</u>	<u>–</u>	<u>351,518,000</u>	<u>–</u>	<u>388,530,000</u>	<u>28.06%</u>

Save as disclosed above, as at 30 June 2009, 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 2009, 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</b>	<b>Nature and capacity of interest</b>	<b>Number of shares held</b>	<b>Approximate percentage of interest (Note 1)</b>
<b><i>Substantial Shareholders</i></b>			
True Allied Assets Limited	Beneficial owner	351,518,000	25.38%
Mr. Li Ge (Note 2)	Interest of controlled corporation	351,518,000	25.38%
	Beneficial owner	37,012,000	2.67%
<b><i>Other Shareholders</i></b>			
Mr. Zhou Xu En (Note 3)	Interest of controlled corporation	106,318,182	7.68%
Lang Fang Huari Furniture Joint Stock Co., Ltd. (廊坊華日家具股份有限公司) ("Huari Furniture") (Note 3)	Beneficial owner	106,318,182	7.68%
Ms. Xiu Jun Cheng (Note 3)	Interest of controlled corporation	106,318,182	7.68%
Mr. Zhou Tian Tang (Note 3)	Interest of controlled corporation	106,318,182	7.68%

*Note:*

- (1) The percentage is calculated by dividing the number of shares interested or deemed to be interested by the existing 1,384,799,970 issued shares as at 30 June 2009.
- (2) Mr. Li Ge is interested by virtue of his 100% beneficial interest in True Allied Assets Limited.

- (3) The 106,318,182 Shares are the maximum number of consideration shares which may be allotted and issued to Huari Furniture or its nominee on or before 31 December 2014 pursuant to the trademarks transfer agreement dated 20 June 2008. Each of Mr. Zhou Xu En, Mr. Zhou Tian Tang and Ms. Xiu Jun Cheng is interested by virtue of their respective beneficial interest as to 48.16%, 25.93% and 23.91% in Huari Furniture. Mr. Zhou Tian Tang and Ms. Xiu Jun Cheng are parents of Mr. Zhou Xu En.

Save as disclosed above, as at 30 June 2009, 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 2009 (2008: 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 2009, 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 2009, 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 2009 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 2009, the Company complied with the code provisions of the CG Code.

## **SHARE OPTION SCHEME**

For the six months ended 30 June 2009, no option had been granted, exercised, cancelled or lapsed under the share option scheme adopted by the shareholders of the Company on 24 May 2002 (“Share Option Scheme”). As at 30 June 2009, no outstanding option has been granted under the Share Option Scheme.

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

During the six months ended 30 June 2009, save and except the placing of 182,000,000 shares of the Company pursuant to the placing agreement dated 15 May 2009 as more particularly set out in note 14 of the financial statements in this announcement, 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 2009.

## **RE-ELECTION OF DIRECTORS**

At the annual general meeting of the Company held on 6 May 2009, 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 2009

*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 [www.fava.com.hk](http://www.fava.com.hk).*

\* *for identification purpose only*