

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 2010

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 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 of the Company (the "Directors") collectively and individually accept full responsibility, includes particulars given in compliance with the Rule 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 the information contained in this announcement is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this announcement misleading.

* *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 2010 together with the comparative figures for the year ended 31 December 2009 as follow:

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2010

	<i>Notes</i>	2010 <i>HK\$'000</i>	2009 <i>HK\$'000</i>
Turnover	5	200,287	297,460
Cost of sales		(183,809)	(252,309)
Gross profit		16,478	45,151
Other revenue	5	1,545	2,473
Other income	6	22,253	2,227
Impairment loss of goodwill		(2,424)	(61,576)
Equity-settled share-based payments		(8,004)	–
Selling and distribution costs		(19,416)	(45,896)
Administrative expenses		(25,323)	(33,755)
Other operating expenses	7	(8,129)	(29,104)
Loss from operations	6	(23,020)	(120,480)
Finance costs		(4)	(4)
Loss before taxation		(23,024)	(120,484)
Taxation	8	(6,574)	–
Loss for the year		(29,598)	(120,484)
Other comprehensive income for the year, net of tax			
Exchange differences on translating foreign operations		10,066	112
Total comprehensive loss for the year		(19,532)	(120,372)
Loss attributable to owners of the Company		(29,598)	(120,484)
Total comprehensive loss attributable to owners of the Company		(19,532)	(120,372)
Loss per share			
– Basic and diluted (HK cents per share)	10	(2.01)	(9.18)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2010

	<i>Notes</i>	2010 <i>HK\$'000</i>	2009 <i>HK\$'000</i>
Non-current assets			
Property, plant and equipment		91,609	107,038
Goodwill		–	2,406
Intangible assets		2,359	10,219
Long-term prepayments		–	15,060
		<u>93,968</u>	<u>134,723</u>
Current assets			
Inventories		87,477	141,150
Trade receivables	<i>11</i>	44,985	41,157
Prepayments, deposits and other receivables		138,273	85,360
Cash and bank balances		25,527	23,531
		<u>296,262</u>	<u>291,198</u>
Less: Current liabilities			
Trade payables	<i>12</i>	32,754	39,462
Other payables and accruals		5,639	62,648
Receipts in advance		29,210	37,976
Amount due to a director		2	650
Amount due to a shareholder		10,000	–
Obligations under finance lease – due within one year		15	16
Income tax payable		6,529	–
		<u>84,149</u>	<u>140,752</u>
Net current assets		<u>212,113</u>	<u>150,446</u>
Total assets less current liabilities		<u>306,081</u>	<u>285,169</u>
Less: Non-current liability			
Obligations under finance lease – due after one year		11	27
Net assets		<u>306,070</u>	<u>285,142</u>
Capital and reserves			
Share capital		3,489	2,769
Reserves		302,581	282,373
Total equity attributable to owners of the Company		<u>306,070</u>	<u>285,142</u>

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2010

	Attributable to owners of the Company							Total equity HK\$'000
	Share capital HK\$'000	Share premium HK\$'000	Contributed surplus HK\$'000	(Accumulated losses)/ retained earnings HK\$'000	Share options reserve HK\$'000	Exchange reserve HK\$'000	Statutory reserves HK\$'000	
At 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 (loss)/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 and 1 January 2010	2,769	169,277	36,000	(945)	-	36,560	41,481	285,142
Loss for the year	-	-	-	(29,598)	-	-	-	(29,598)
Other comprehensive income for the year	-	-	-	-	-	10,066	-	10,066
Total comprehensive (loss)/income for the year	-	-	-	(29,598)	-	10,066	-	(19,532)
Release upon disposal of a subsidiary	-	-	-	-	-	(10,995)	-	(10,995)
Recognition of equity-settled share-based payment	-	-	-	-	8,004	-	-	8,004
Current year appropriation	-	-	-	(2,019)	-	-	2,019	-
Issue of shares	554	-	-	-	-	-	-	554
Issue of shares upon exercise of share options	166	16,312	-	-	(4,830)	-	-	11,648
Premium arising from issue of new shares, net of expenses	-	31,249	-	-	-	-	-	31,249
At 31 December 2010	<u>3,489</u>	<u>216,838</u>	<u>36,000</u>	<u>(32,562)</u>	<u>3,174</u>	<u>35,631</u>	<u>43,500</u>	<u>306,070</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 Hong Kong Financial Reporting Standards (“HKFRSs”) (which also include Hong Kong Accounting Standards (“HKASs”) and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants (“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 2009 consolidated financial statements.

3. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS

The HKICPA has issued certain new and revised standards, amendments and interpretations that are mandatory for accounting periods beginning on or after 1 January 2010. 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.

HKFRSs (Amendments)	Amendments to HKFRS 5 as part of Improvements to HKFRSs issued in 2008
HKFRSs (Amendments)	Improvements to HKFRSs issued in 2009
HKAS 27 (as revised in 2008)	Consolidated and Separate Financial Statements
HKAS 28 (as revised in 2008)	Investments in Associates
HKAS 39 (Amendment)	Eligible Hedged Items
HKFRS 1 (Amendment)	First-time Adoption of Hong Kong Financial Reporting Standards – Additional Exemptions for First-time Adopters
HKFRS 1 (revised)	First-time Adoption of Hong Kong Financial Reporting Standards
HKFRS 2 (Amendment)	Group Cash-settled Share-based Payment Transactions
HKFRS 3 (as revised in 2008)	Business Combinations
HKFRS 5 (Amendments as part of Improvements to HKFRSs issued in 2008)	Non-current Assets Held for Sale and Discontinued Operations – Plan to Sell the Controlling Interest in a Subsidiary
HK(IFRIC) – Int 17	Distributions of Non-cash Assets to Owners
HK – Int 4 (Amendment)	Determination of the Length of Lease Term in respect of Hong Kong Land Leases
HK – Int 5	Presentation of Financial Statements – Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause

The impact of the application of the above new HKFRSs is discussed below.

HKFRS 3 (as revised in 2008) Business Combinations

HKFRS 3 (as revised in 2008) has been applied in the current year prospectively to business combinations of which the acquisition date is on or after 1 January 2010 in accordance with the relevant transitional provisions. Its application has affected the accounting for business combinations in the current year.

The impact of the application of HKFRS 3 (as revised in 2008) is as follows:

- HKFRS 3 (as revised in 2008) allows a choice on a transaction-by-transaction basis for the measurement of non-controlling interests at the date of acquisition (previously referred to as “minority” interests) either at fair value or at the non-controlling interests’ share of recognised identifiable net assets of the acquiree. In the current year, in accounting for the acquisition of subsidiaries, the Group has elected to measure the non-controlling interests at fair value at the date of acquisition. Consequently, the goodwill recognised in respect of that acquisition reflects the impact of the difference between the fair value of the non-controlling interests and their share of recognised identifiable net assets of the acquiree.
- HKFRS 3 (as revised in 2008) changes the recognition and subsequent accounting requirements for contingent consideration. Previously contingent consideration was recognised at the acquisition date only if payment of the contingent consideration was probable and it could be measured reliably; any subsequent adjustments to the contingent consideration were always made against the cost of the acquisition. Under the revised standard, contingent consideration is measured at fair value at the acquisition date; subsequent adjustments to the consideration are recognised against the cost of acquisition only to the extent that they arise from new information obtained within the measurement period (a maximum of 12 months from the acquisition date) about the fair value at the acquisition date. All other subsequent adjustments to contingent consideration classified as an asset or a liability are recognised in profit or loss.
- HKFRS 3 (as revised in 2008) requires the recognition of a settlement gain or loss when the business combination in effect settles a pre-existing relationship between the Group and the acquiree.
- HKFRS 3 (as revised in 2008) requires acquisition-related costs to be accounted for separately from the business combination, generally leading to those costs being recognised as an expense in profit or loss as incurred, whereas previously they were accounted for as part of the cost of the acquisition.

HKAS 27 (as revised in 2008) Consolidated and Separate Financial Statements

The application of HKAS 27 (as revised in 2008) has resulted in changes in the Group’s accounting policies for the Group’s changes in ownership interests in subsidiaries of the Group.

Specifically, the revised standard has affected the Group’s accounting policies regarding changes in the Group’s ownership interests in its subsidiaries that do not result in loss of control. In prior years, in the absence of specific requirements in HKFRSs, increases in interests in existing subsidiaries were treated in the same manner as the acquisition of subsidiaries, with goodwill or a bargain purchase gain being recognised, when appropriate; for decreases in interests in existing subsidiaries that did not involve a loss of control, the difference between the consideration received and the adjustment to the non-controlling interests was recognised in profit or loss. Under HKAS 27 (as revised in 2008), all such increases or decreases are dealt with in equity, with no impact on goodwill or profit or loss.

When control of a subsidiary is lost as a result of a transaction, event or other circumstance, the revised standard requires the Group to derecognise all assets, liabilities and non-controlling interests at their carrying amounts and to recognise the fair value of the consideration received. Any retained interest in the former subsidiary is recognised at its fair value at the date control is lost. The resulting difference is recognised as a gain or loss in profit or loss.

These changes have been applied prospectively from 1 January 2010 in accordance with the relevant transitional provisions.

In addition, under HKAS 27 (as revised in 2008), the definition of non-controlling interest has been changed. Specifically, under the revised standard, non-controlling interest is defined as the equity in a subsidiary not attributable, directly or indirectly, to a parent.

HKAS 28 (as revised in 2008) Investments in Associates

The principle adopted under HKAS 27 (as revised in 2008) that a loss of control is recognised as a disposal and re-acquisition of any retained interest at fair value is extended by consequential amendments to HKAS 28. Therefore, when significant influence over an associate is lost, the investor measures any investment retained in the former associate at fair value, with any consequential gain or loss recognised in profit or loss.

HK – Int 5 Presentation of Financial Statements – Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause

HK – Int 5 Presentation of Financial Statements – Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause (“HK Int 5”) clarifies that term loans that include a clause that gives the lender the unconditional right to call the loans at any time (“repayment on demand clause”) should be classified by the borrower as current liabilities. The Group has applied HK Int 5 for the first time in the current year. HK Int 5 requires retrospective application.

In order to comply with the requirements set out in HK Int 5, the Group has changed its accounting policy on classification of term loans with a repayment on demand clause. In the past, the classification of such term loans were determined based on the agreed scheduled repayment dates set out in the loan agreements. Under HK Int 5, term loans with a repayment on demand clause are classified as current liabilities.

Such term loans have been presented in the earliest time band in the maturity analysis for financial liabilities that reflects the remaining contractual maturities.

Except for those as disclosed above, the directors anticipate that the application of these new HKFRSs has no material impact on the results and the financial position of the Group.

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

HKFRSs (Amendments)	Improvements to HKFRSs in 2010 except for the amendments to HKFRS 3 (Revised in 2008), HKFRS 7, HKAS 1 and HKAS 28 ¹
HKFRS 1 (Amendment)	Limited Exemption from Comparative HKFRS 7 – Disclosures for First-time Adopters ²
HKFRS 1 (Amendment)	Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters ³
HKFRS 7 (Amendments)	Disclosures – Transfers of Financial Assets ³
HKFRS 9	Financial Instruments ⁴
HKFRS 12 (Amendments)	Deferred Tax: Recovery of Underlying Assets ⁵
HKAS 24 (as revised in 2009)	Related Party Disclosures ⁶
HKAS 32 (Amendments)	Classification of Rights Issues ⁷
HK(IFRIC) – Int 14 (Amendments)	Prepayments of a Minimum Funding Requirement ⁶
HK(IFRIC) – Int 19	Extinguishing Financial Liabilities with Equity Instruments ²

¹ Amendments that are effective for annual periods beginning on or after 1 July 2010 or 1 January 2011, as appropriate

² Effective for annual periods beginning on or after 1 July 2010

³ Effective for annual periods beginning on or after 1 July 2011

⁴ Effective for annual periods beginning on or after 1 January 2013

⁵ Effective for annual periods beginning on or after 1 January 2012

⁶ Effective for annual periods beginning on or after 1 January 2011

⁷ Effective for annual periods beginning on or after 1 February 2010

HKFRS 9 *Financial Instruments* (as issued in November 2009) introduces new requirements for the classification and measurement of financial assets. HKFRS 9 *Financial Instruments* (as revised in November 2010) adds requirements for financial liabilities and for derecognition.

- Under HKFRS 9, all recognised financial assets that are within the scope of HKAS 39 *Financial Instruments: Recognition and Measurement* are subsequently measured at either amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. All other debt investments and equity investments are measured at their fair values at the end of subsequent accounting periods.
- In relation to financial liabilities, the significant change relates to financial liabilities that are designated as at fair value through profit or loss. Specifically, under HKFRS 9, for financial liabilities that are designated as at fair value through profit or loss, the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the presentation of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss. Previously, under HKAS 39, the entire amount of the change in the fair value of the financial liability designated as at fair value through profit or loss was presented in profit or loss.

HKFRS 9 is effective for annual periods beginning on or after 1 January 2013, with earlier application permitted.

The directors anticipate that HKFRS 9 that will be adopted in the Group's consolidated financial statements for the annual period beginning 1 January 2013 and that the application of the new standard may have a significant impact on amounts reported in respect of the Groups' financial assets. However, it is not practicable to provide a reasonable estimate of that effect until a detailed review has been completed.

The amendments to HKFRS 7 titled *Disclosures – Transfers of Financial Assets* increase the disclosure requirements for transactions involving transfers of financial assets. These amendments are intended to provide greater transparency around risk exposures when a financial asset is transferred but the transferor retains some level of continuing exposure in the asset. The amendments also require disclosures where transfers of financial assets are not evenly distributed throughout the period.

The directors do not anticipate that these amendments to HKFRS 7 will have a significant effect on the Group's disclosures regarding transfers of trade receivables previously effected. However, if the Group enters into other types of transfers of financial assets in the future, disclosures regarding those transfers may be affected.

HKAS 24 *Related Party Disclosures* (as revised in 2009) modifies the definition of a related party and simplifies disclosures for government-related entities.

The disclosure exemptions introduced in HKAS 24 (as revised in 2009) do not affect the Group because the Group is not a government-related entity. However, disclosures regarding related party transactions and balances in these consolidated financial statements may be affected when the revised version of the standard is applied in future accounting periods because some counterparties that did not previously meet the definition of a related party may come within the scope of the standard.

The amendments to HKAS 32 titled *Classification of Rights Issues* address the classification of certain rights issues denominated in a foreign currency as either an equity instrument or as a financial liability. To date, the Group has not entered into any arrangements that would fall within the scope of the amendments. However, if the Group does enter into any rights issues within the scope of the amendments in future accounting periods, the amendments to HKAS 32 will have an impact on the classification of those rights issues.

HK(IFRIC) – Int 19 provides guidance regarding the accounting for the extinguishment of a financial liability by the issue of equity instruments. To date, the Group has not entered into transactions of this nature. However, if the Group does enter into any such transactions in the future, HK(IFRIC) – Int 19 will affect the required accounting. In particular, under HK(IFRIC) – Int 19, equity instruments issued under such arrangements will be measured at their fair value, and any difference between the carrying amount of the financial liability extinguished and the fair value of equity instruments issued will be recognised in profit or loss.

4. SEGMENT INFORMATION

Information reported to the board of directors of the Company, being the chief operating decision makers, for the purposes of resource allocation and assessment of segment performance focuses on types of goods delivered.

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 and tax balances.

(a) Segment revenue and results

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:

	Direct retail of household products		Indirect retail of household products and others		Total	
	2010 HK\$'000	2009 HK\$'000	2010 HK\$'000	2009 HK\$'000	2010 HK\$'000	2009 HK\$'000
Segment revenue:						
Sales to external customers	<u>18,949</u>	<u>36,350</u>	<u>181,338</u>	<u>261,110</u>	<u>200,287</u>	<u>297,460</u>
Segment results	<u>806</u>	<u>(141,002)</u>	<u>(23,548)</u>	<u>20,592</u>	<u>(22,742)</u>	<u>(120,410)</u>
Interest income and unallocated gains					14,013	4,800
Corporate and other unallocated expenses					(14,291)	(4,870)
Finance costs					<u>(4)</u>	<u>(4)</u>
Loss before taxation					(23,024)	(120,484)
Taxation					<u>(6,574)</u>	<u>-</u>
Loss for the year					<u>(29,598)</u>	<u>(120,484)</u>

There were no inter-segment sales in the year (2009: 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 makers for the purposes of resource allocation and assessment of segment performance.

	Direct retail of household products		Indirect retail of household products and others		Total	
	2010	2009	2010	2009	2010	2009
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Assets and liabilities						
Segment assets	2,595	6,351	345,124	418,898	347,719	425,249
Corporate and other unallocated assets					42,511	672
Total assets					390,230	425,921
Segment liabilities	16,532	69,360	50,063	69,914	66,595	139,274
Corporate and other unallocated liabilities					17,565	1,505
Total liabilities					84,160	140,779

	Direct retail of household products		Indirect retail of household products and others		Unallocated		Total	
	2010	2009	2010	2009	2010	2009	2010	2009
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Other segment information								
Depreciation	-	2,057	17,599	17,814	25	50	17,624	19,921
Amortisation of intangible assets	-	-	3,151	3,975	-	-	3,151	3,975
Amortisation of long-term prepayments	-	-	7,587	7,522	-	-	7,587	7,522
Capital expenditure	-	502	843	4,771	5	-	848	5,273
Impairment loss of goodwill	2,424	61,576	-	-	-	-	2,424	61,576
Provision for impairment loss of trade receivables	-	-	4,050	6,532	-	-	4,050	6,532
Provision for impairment loss of prepayments and other receivables	-	-	4,069	5,597	-	-	4,069	5,597
Write down of obsolete inventories	-	-	2,367	12,800	-	-	2,367	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 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	
	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>
Sales						
The PRC	18,949	36,350	173,336	260,758	192,285	297,108
USA	–	–	3,336	245	3,336	245
European Union	–	–	4,520	87	4,520	87
Others	–	–	146	20	146	20
	<u>18,949</u>	<u>36,350</u>	<u>181,338</u>	<u>261,110</u>	<u>200,287</u>	<u>297,460</u>
Non-current assets						
The PRC	<u>–</u>	<u>1,131</u>	<u>93,960</u>	<u>133,572</u>	<u>93,960</u>	<u>134,703</u>

(c) **Other information**

Revenue from major products

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

	2010	2009
	<i>HK\$'000</i>	<i>HK\$'000</i>
Indirect retail of household products and others	181,338	261,110
Direct retail of household products	18,949	36,350
	<u>200,287</u>	<u>297,460</u>

Information about major customers

Included in revenues arising from manufacturing and sales of household products of approximately HK\$200,287,000 (2009: approximately HK\$297,460,000) are revenues of approximately HK\$36,679,000 (2009: approximately HK\$35,211,000) which arose from sales to the Group's largest customer (the indirect retail of household products and other 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	
	2010	2009
	HK\$'000	HK\$'000
Turnover:		
Indirect retail of household products and others	181,338	261,110
Direct retail of household products	18,949	36,350
	<u>200,287</u>	<u>297,460</u>
Other revenue:		
Bank interest income	49	19
Sundry income	1,496	2,454
	<u>1,545</u>	<u>2,473</u>

6. LOSS FROM OPERATIONS

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

	The Group	
	2010	2009
	<i>HK\$'000</i>	<i>HK\$'000</i>
Cost of inventories sold	183,809	252,309
Auditors' remuneration	<u>500</u>	<u>500</u>
Depreciation on owned property, plant and equipment	17,599	19,896
Depreciation on property, plant and equipment held under finance lease	<u>25</u>	<u>25</u>
	<u>17,624</u>	<u>19,921</u>
Minimum lease payments under operating leases:		
Plant and machinery	4,264	4,176
Land and buildings	<u>3,515</u>	<u>14,705</u>
	<u>7,779</u>	<u>18,881</u>
Employee benefits expense (excluding directors' remuneration):		
Wages, salaries and other allowances	18,017	27,933
Pension scheme contributions	6,792	4,892
Equity-settled share-based payments	<u>1,656</u>	<u>–</u>
	<u>26,465</u>	<u>32,825</u>
Amortisation of intangible assets	3,151	3,975
Amortisation of long-term prepayments	7,587	7,522
Impairment loss of goodwill	2,424	61,576
Provision for impairment loss of trade receivables	4,050	6,532
Provision for impairment loss of prepayments and other receivables	4,069	5,597
Write down of obsolete inventories	2,367	12,800
Gain on disposals on property, plant and equipment	<u>–</u>	<u>(10)</u>
and after crediting:		
Other income:		
Reversal of provision for impairment loss of trade receivables	7,985	2,122
Reversal of provision for impairment loss of prepayments	1,800	–
Gain on disposal of a subsidiary	11,053	–
Sundry income	<u>1,415</u>	<u>105</u>
	<u>22,253</u>	<u>2,227</u>

7. OTHER OPERATING EXPENSES

	The Group	
	2010	2009
	<i>HK\$'000</i>	<i>HK\$'000</i>
Provision for impairment loss of trade receivables	4,050	6,532
Provision for impairment loss of prepayments and other receivables	4,069	5,597
Loss on disposal of raw materials	10	16,975
	<u>8,129</u>	<u>29,104</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 (2009: 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 (2009: Nil).

	The Group	
	2010	2009
	<i>HK\$'000</i>	<i>HK\$'000</i>
Current – Hong Kong	–	–
Current – PRC	6,574	–
	<u>6,574</u>	<u>–</u>
Tax charge for the year	<u>6,574</u>	<u>–</u>

Deferred taxation

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

	The Group		The Company	
	2010	2009	2010	2009
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Tax losses	14,784	325	14,476	17
Deductible temporary differences	35	3	–	–
	<u>14,819</u>	<u>328</u>	<u>14,476</u>	<u>17</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 2010 (2009: Nil).

10. LOSS PER SHARE ATTRIBUTABLE TO OWNERS OF THE COMPANY

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

	2010 <i>HK\$'000</i>	2009 <i>HK\$'000</i>
Loss		
Loss attributable to owners of the Company, used in the basic loss per share calculation	<u>(29,598)</u>	<u>(120,484)</u>
	<i>'000</i>	<i>'000</i>
Number of shares		
Weighted average number of ordinary shares in issue during the year used in the basic loss per share calculation	<u>1,470,469</u>	<u>1,312,000</u>

Diluted loss per share for the year ended 31 December 2010 was the same as the basic loss per share. The Company's outstanding share options were not included in the calculation of diluted loss per share because the effect of the Company's outstanding share options were anti-dilutive.

There was no diluting event existed during the year ended 31 December 2009.

11. TRADE RECEIVABLES

The average credit period on sales of goods is 30 days (2009: 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	
	2010 <i>HK\$'000</i>	2009 <i>HK\$'000</i>
Trade receivables	53,388	53,370
Less: Provision for impairment loss of trade receivables	<u>(8,403)</u>	<u>(12,213)</u>
	<u>44,985</u>	<u>41,157</u>

As at 31 December 2010, the Group's trade receivables of approximately HK\$8,403,000 (2009: approximately HK\$12,213,000) 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	
	2010	2009
	<i>HK\$'000</i>	<i>HK\$'000</i>
0 – 30 days	17,257	15,324
31 – 60 days	8,264	7,952
61 – 90 days	4,584	1,801
91 – 180 days	11,376	4,813
Over 180 days	3,504	11,267
	<u>44,985</u>	<u>41,157</u>

12. TRADE PAYABLES

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

	The Group	
	2010	2009
	<i>HK\$'000</i>	<i>HK\$'000</i>
0 – 30 days	15,947	11,381
31 – 60 days	2,542	10,762
61 – 90 days	1,110	2,674
91 – 180 days	2,484	5,527
Over 180 days	10,671	9,118
	<u>32,754</u>	<u>39,462</u>

BUSINESS AND FINANCIAL REVIEW

Benefiting from the vigorous gross domestic production (GDP) growth, the furniture industry in China is fueled with significant upside momentum. However, a series of austerity measures introduced by the Central Government against inflation has slowed down annual GDP growth rate, and eventually weakened growth impetus of the furniture industry.

Against the backdrop of an obscure macro-economic environment with sluggish economic recovery, high unemployment rate and poor consumer sentiment, the Group prioritized market share expansion and operating effectiveness enhancement by optimizing production procedures and production efficiency so as to maintain competitive advantages in spite of the increasing raw material costs and labour costs. In addition, the Group has also boosted product development by launching new series of furniture such as TAWA apart from the existing product series such as Norwegian Forest, Greenwich, Modern Orient and California Sun.

Gross profit margin of the Group continuously fell due to fierce competition. Gross profit margin decreased from 15.18% in 2009 to 8.23% this year. The Group disposed of most of its direct retail business with higher gross profit margin whilst focused to develop its indirect retail business and this attributed to the decrease in gross profit margin. In addition, offering discounts to certain obsolete inventories resulted in a further drop in gross profit margin.

In 2010, the Group recorded a loss totaling approximately HK\$29,598,000, largely attributable to the unfavorable business environment which led to the difficulty in improving the sales volume, the reduced output which resulted in a fall in the capacity utilization rate of plants, the rise in unit costs and the provision of sales subsidies to franchisees. In general, although the problems regarding high operating costs and overcapacity of our plants are still serious, it shows a significant improvement as compared to 2009.

Due to the unsatisfactory 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, in order to achieve an operating mode of "light assets".

RETAIL BUSINESS

Due to the fall in orders from franchisees, the Group has introduced various discount offers and provided sales subsidies to franchisees in order to boost sales and maintain market share. The Group's total retail sales, however, remained falling as a result of the general unfavorable business environment. The turnover totaled HK\$200,287,000 only, representing a decrease of 32.67% from last year.

In 2010, indirect retail sales derived from franchisees amounted to approximately HK\$181,338,000, down 30.55% from approximately HK\$261,110,000 last year.

Direct retail sales derived from self-owned direct sale shop (Hall A) totaled approximately HK\$18,949,000, down 47.87% from approximately HK\$36,350,000 last year.

PROSPECTS

The measures implemented by the Chinese Government to regulate the real estate market, especially in first tier cities, have postponed home buyers from buying properties and furniture, which inevitably brought certain impacts to the furniture market. The Group currently targets at the real estate market in the second-and-third tier cities as well as rural areas where huge housing demand is in place due to the Central Government's supportive policies on rural-urban migration. As continuous growth is expected in the real estate market of those cities, the Group will be able to achieve its goal of business expansion should it capitalize on business opportunities and strengthen cooperation with franchisees.

The Group provides one-stop services featuring wood furniture, tailor-made household renovation and low carbon consumption to cater for consumers' unique requirements. The Group will continue to develop new product portfolios in response to the increasing emphasis of general consumers on product quality, insist on original design and offer comprehensive after-sale services so as to gain recognition from consumers.

MATERIAL DISPOSALS OF BUSINESS

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”), 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. Mr. Liu was an independent third party in respect of the Disposal. The consideration for the Disposal was 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”), pursuant to the Beijing Disposal Agreement, Hengyu agreed to dispose of and Mr. Zhou agreed to acquire, the furniture retail outlet in Beijing and its business owned by Hengyu as at 31 May 2010 (the “Beijing Business”) (the “Beijing Disposal”). Mr. Zhou was 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 Beijing Business. The consideration for the Beijing Disposal was 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”), pursuant to the Shanghai Disposal Agreement, Hengyu agreed to dispose of and Mr. Zhang agreed to acquire, the furniture retail outlet in Shanghai and its business owned by Hengyu as at 31 May 2010 (the “Shanghai Business”) (the “Shanghai Disposal”). Mr. Zhang was an independent third party in respect of the disposal of the Shanghai Business. The consideration for the Shanghai Disposal was 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”), pursuant to the Dalian Disposal Agreement, Hengyu agreed to dispose of and Mr. Huang agreed to acquire, the furniture retail outlet in Dalian and its business owned by Hengyu as at 31 May 2010 (the “Dalian Business”) (the “Dalian Disposal”). Mr. Huang was an independent third party in respect of the disposal of the Dalian Business. The consideration for the Dalian Disposal was 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.

Transfer of Tianfeng Equity Interests (the “Share Transfer”) by Trader Group International Limited (“Trader Group”)

On 17 September 2010, Trader Group, a wholly-owned subsidiary of the Company, entered into a share transfer contract (the “Share Transfer Contract”) with Lucky Sky Enterprise Limited (“Lucky Sky”), an independent third party in respect of the Share Transfer, pursuant to the Share Transfer Contract, Trader Group agreed to dispose of and Lucky Sky agreed to acquire, the 100% equity interests of Lang Fang Tian Feng Home Co., Ltd* (廊坊天豐家居有限公司) (Tian Feng). The consideration for the Share Transfer was RMB5,557,355.18 (approximately HK\$6,346,999.78). The gross proceeds of RMB5,557,355.18 from the Share Transfer has been used as the Group’s general working capital. For details, please refer to the announcement of the Company dated 17 September 2010.

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

FINANCIAL REVIEW

The Group generated approximately HK\$200,287,000 in total revenue in 2010, representing a fall of 32.67% as compared with year 2009.

The turnover can be further analyzed as follows:

	2010		2009		Change
	HK\$ million	%	HK\$ million	%	
PRC indirect retail sales	173.3	86.54%	260.7	87.6%	(33.5%)
PRC direct retail sales	18.9	9.46%	36.4	12.2%	(48.1%)
Export sales	8.1	4%	0.4	0.2%	1,925%
Total	200.3	100%	297.5	100%	

MEMORANDUM OF UNDERSTANDING

On 20 September 2010, a wholly-owned subsidiary of the Company, EMAX Venture Limited (the “Purchaser”), entered into the Memorandum of Understanding (“MOU”) with an individual who is the controlling shareholder of the target company under the proposed acquisition (the “Target Company”) (the “Vendor”), pursuant to which the Purchaser intended to acquire and the Vendor intended to sell 80% interest of the Target Company (the “Proposed Acquisition”). The Target Company and its subsidiaries (the “Target Group”) are principally engaged in the retail business of fashionable products and accessories in Hong Kong and the PRC.

The Consideration is expected to be in the range from HK\$600,000,000 to HK\$800,000,000.

Pursuant to the MOU the Purchaser shall pay HK\$40,000,000 to the Vendor within 30 days from the date of the MOU (or such other dates or times as agreed between the Vendor and the Purchaser) as earnest money or deposit (“Earnest Money”) which is refundable (i) if a formal legally-binding sale and purchase agreement between the purchaser (or its nominated entity) and the vendor in the event that the parties proceeds with the Proposed Acquisition (the “Formal Agreement”) and other legal documentation relating to the subject matter of the MOU is not entered into by the respective parties on or before 29 October 2010 (or such later date as the Vendor and the Purchaser may agree in writing); or (ii) upon receiving the notification from the Purchaser that the results of the due diligence exercise on the Target Group to be conducted are not satisfactory to the Purchaser in its sole discretion.

Upon signing of the Formal Agreement, the Earnest Money will be applied as deposit and part payment of the Consideration.

On 18 November 2010, the purchaser and the vendor agreed that the Earnest Money is refundable (i) if the Formal Agreement and other legal documentation relating to the subject matter of the MOU is not entered into by the respective parties on or before 19 March 2011; or (ii) upon receiving the notification from Purchaser that the results of the due diligence exercise on Target Group to be conducted are not satisfactory to Purchaser in its sole discretion.

As no Formal Agreement and other legal documentation relating to the subject matter of the MOU has been entered into on or before the ending of the exclusivity period of the MOU (i.e. on or before 19 March 2011), thus the MOU shall lapse accordingly. The Earnest Money paid by the Purchaser to the Vendor will be refunded to the Purchaser in full.

For details, please refer to the announcements of the Company dated 21 September 2010, 18 November 2010 and 19 March 2011.

PLACING OF NEW SHARES

The Company entered into a placing agreement dated 21 September 2010 with Quam Securities Company Limited (the “Placing Agent”), whereby the Company conditionally agreed to place through the Placing Agent, on a best efforts basis, a maximum of 276,956,000 new shares (the “Placing Shares”) to independent investors at a price of HK\$0.116 per Placing Share (the “Placing”).

The placing of 276,956,000 new shares to not less than six placees was completed on 8 October 2010 at a placing price of HK\$0.116 per share. HK\$30,000,000 of the net proceeds received by the Company from the Placing of approximately HK\$31,800,000 has been applied for the partial settlement of the earnest money in the amount of HK\$40,000,000 payable under the terms of the MOU. As at the date of this announcement, the earnest money has been fully settled.

For further details, please refer to the Company’s announcements dated 21 September 2010 and 8 October 2010 respectively.

SIGNIFICANT INVESTMENT

The Group had no significant investment held in the year ended 31 December 2010.

LIQUIDITY AND FINANCIAL RESOURCES

All the Group’s funding and treasury activities are basically managed and controlled by the senior management. There was 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 2010, cash and bank balances of the Group was approximately HK\$25,527,000 (2009: approximately HK\$23,531,000), approximately 93% of the Group’s cash was denominated in Renminbi and 7% of the Group’s cash was denominated in Hong Kong dollars. The Group’s exposure to exchange fluctuation was minimal.

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

As at 31 December 2010, total borrowing of the Group amounted to approximately HK\$26,000 (2009: approximately HK\$43,000), representing obligation under a finance lease contract with an interest rate of approximately 5% per annum and average lease term of approximately five years.

CAPITAL STRUCTURE

The total number of issued shares of the Company was 1,744,555,970 as at 31 December 2010.

EMPLOYEE AND REMUNERATION POLICY

As at 31 December 2010, the Group had employed 6 staffs in Hong Kong and 922 staffs in PRC (as at 31 December 2009: 5 staffs in Hong Kong and 1,388 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 2010 amounted to approximately HK\$27,807,000 (2009: approximately HK\$33,535,000).

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.

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 2010 (2009: 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 2010, the Group's gearing ratio was approximately 0.01% representing a percentage of obligations under finance lease over shareholders' equity (2009: 0.01%), and the net current assets was approximately HK\$212,113,000 (2009: approximately HK\$150,446,000).

FOREIGN CURRENCY EXPOSURE

As most of the Group's transactions are denominated in Renminbi and Hong Kong dollars, the Directors believe that the Group's 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 and the Company had no contingent liabilities as at 31 December 2010 (2009: nil).

CODE OF CONDUCT REGARDING SECURITIES TRANSACTIONS BY DIRECTORS

During the year ended 31 December 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.

BOARD OF DIRECTORS

The Board comprises seven Directors, of whom three are executive Directors (one is the chairman and chief executive officer of the Company), one is non-executive Director 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 2010 were:

Executive Directors

Mr. Li Ge (*Chairman and Chief Executive Officer*)

Mr. Zhao Guo Wei

Mr. Ma Chun Fung, Horace (appointed on 21 September 2010)

Non-executive Director

Mr. Ng Kwai Wah, Sunny (appointed on 30 August 2010)

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 Rule 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 and one non-executive Director form the majority of the seven-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.

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 5 meetings in 2010, which were attended by all the three members. The Group’s 2010 quarterly reports, 2010 half-yearly report, 2009 and 2010 annual results and 2009 and 2010 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 2010, 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 2010.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

The Company has not redeemed any of this its listed securities during the year ended 31 December 2010. Save as the placing of shares mentioned in the paragraphs headed "PLACING OF NEW SHARES". The Company or any of its subsidiaries has not purchased or sold any of the Company's listed securities during the year under review.

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, 24 March 2011

As at the date of this announcement, the Board comprises Mr. Li Ge, Mr. Zhao Guo Wei and Mr. Ma Chun Fung, Horace as executive Directors, Mr. Ng Kwai Wah, Sunny as non-executive Director 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>.