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# FAVA INTERNATIONAL HOLDINGS LIMITED

## 名家國際控股有限公司

(Incorporated in Bermuda with limited liability)

Stock Code : 8108



First Quarterly Report  
**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 report, 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 report 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 report misleading; and 3. all opinions expressed in this report have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.*

## FIRST QUARTERLY RESULTS (UNAUDITED)

The board of directors (the “Board”) of FAVA International Holdings Limited (the “Company”) is pleased to announce the unaudited consolidated results of the Company and its subsidiaries (the “Group”) for the three months ended 31 March 2009 together with the comparative figures.

### CONSOLIDATED INCOME STATEMENT (UNAUDITED)

For the three months ended 31 March 2009

	Notes	Three months ended 31 March	
		2009 HK\$'000	2008 HK\$'000
Turnover	2	<b>58,565</b>	104,542
Cost of sales		<b>(45,132)</b>	(70,834)
Gross profit		<b>13,433</b>	33,708
Other revenue		<b>248</b>	244
Selling and distribution costs		<b>(11,223)</b>	(6,827)
Administrative expenses		<b>(6,969)</b>	(5,016)
Other operating expenses		<b>(108)</b>	(218)
(Loss)/profit from operations		<b>(4,619)</b>	21,891
Finance costs		<b>(17)</b>	(127)
(Loss)/profit before taxation		<b>(4,636)</b>	21,764
Taxation	3	-	-
(Loss)/profit attributable to shareholders of the Company		<b>(4,636)</b>	21,764
Interim dividend	4	-	-
		<b>HK cents</b>	<b>HK cents</b>
(Loss)/earnings per share			
- Basic	5	<b>(0.4)</b>	1.8

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

	Share Capital	Share Contributed Premium	Accumulated (Losses)/ Surplus Profits	Exchange Reserve	Statutory Reserves	Total	
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	
<i>For the three months ended</i>							
<i>31 March 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	-	-	-	-	12,137	-	12,137
Net profit for the three months ended 31 March 2008	-	-	-	21,764	-	-	21,764
At 31 March 2008	2,405	151,778	36,000	90,867	28,857	25,779	335,686
<i>For the three months ended</i>							
<i>31 March 2009</i>							
At 1 January 2009	2,405	151,778	36,000	119,539	36,448	41,481	387,651
Exchange differences arising from translation of financial statements of subsidiaries	-	-	-	-	(489)	-	(489)
Net loss for the three months ended 31 March 2009	-	-	-	(4,636)	-	-	(4,636)
At 31 March 2009	2,405	151,778	36,000	114,903	35,959	41,481	382,526

Notes:

### 1. Basis of preparation

The Group's unaudited first quarterly results have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by Hong Kong Institute of Certified Public Accountants ("HKICPA"), accounting principles generally accepted in Hong Kong and the applicable disclosure requirements 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 the Companies Ordinance (Chapter 32 of the Laws of Hong Kong).

The measurement basis used in the preparation of the financial statements is historical cost convention.

The accounting policies adopted in preparing the unaudited condensed consolidated financial statements for the three months ended 31 March 2009 are consistent with those adopted in the annual report of the Company for the year ended 31 December 2008.

### 2. Turnover

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

	Three months ended	
	31 March	
	2009	2008
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Manufacture and sales of household products	58,565	104,542

### 3. Taxation

No provision for Hong Kong profits tax has been made as the Group has no assessable profit in Hong Kong for the three months ended 31 March 2009 (three months ended 31 March 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.



On 16 March 2007, the PRC promulgated the Law of the PRC on Enterprise Income Tax (the “New Law”) by Order No. 63 issued by the Tenth National People’s Congress. On 6 December 2007, the State Council of the PRC issued implementation Regulations of the New Law. Pursuant to the New Law and Implementation Regulations, the EIT for both domestic and foreign-invested enterprises will be unified at 25% effective from 1 January 2008. There will be a transitional period for PRC subsidiaries that currently entitled to preferential tax treatments granted by the relevant tax authorities. PRC subsidiaries currently subject to an enterprise income tax rate lower than 25% will continue to enjoy the lower tax rate and be gradually transitioned to the new unified rate of 25% within five years after 1 January 2008.

No EIT charge for the three months ended 31 March 2009 as all the PRC subsidiaries of the Group have recorded loss (three months ended 31 March 2008: Nil).

There was no significant unprovided deferred taxation for the three months ended 31 March 2009 (three months ended 31 March 2008: Nil).

Deferred tax had not been provided as there were no significant temporary differences at the period-end date (three months ended 31 March 2008: Nil).

#### **4. Interim dividend**

No dividend has been paid or declared by the Company for the three months ended 31 March 2009 (three months ended 31 March 2008: Nil).

#### **5. (Loss)/earnings per share**

The calculation of the basic (loss)/earnings per share is based on the Group’s profit attributable to ordinary equity holders of the Company for the three months ended 31 March 2009 of approximately HK\$4,636,000 (profit attributable to ordinary equity holders of the Company for the three months ended 31 March 2008: approximately HK\$21,764,000), and the weighted average of 1,202,799,970 ordinary shares (three months ended 31 March 2008: 1,202,799,970 ordinary shares) in issue during the three months ended 31 March 2009.

There was no diluting event existing during the three months ended 31 March 2009 and 2008.

# MANAGEMENT DISCUSSION AND ANALYSIS

## Financial and Business Review

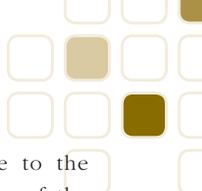
The Group is encountering the challenges brought about from the global financial turmoil, the weakening retail demand for furniture as a result of the sluggish property market, the continuous consolidation of the domestic furniture market that weeded out numerous small furniture enterprises successively. As a brand with more than 16-year history, the “Huari” trademark was recognized by the State Administration for Industry and Commerce as a “China’s Famous Trademark” in 2005. “Huari Furniture” was honoured as a “China’s Famous Product” in 2006 and one of the “China’s Top 10 Healthy Furniture Brands” in 2007. As consumers become more aware of the brand names and the safety and quality of furniture products nowadays, “Huari Furniture” enjoys a great advantage of its brand in the PRC furniture market so that the Group is able to stabilize its sales channel even under the current intensifying competition in the market and uncertainties of the global economy.

To further strengthen its competitive edges in the PRC furniture market, the Group made an enormous investment in 2008, of which approximately RMB13 million was used to promote its products across the state, including placing advertisements on the most influential China Central Television and certain television and radio stations at the provincial level and participating in various large-scale furniture sales expos in the PRC. Although these further strengthened the brand name and image of the Group, the operating expenditure of the Group substantially increased in the short run.

On the other hand, the Group has discontinued the expansion of self-operation retail business due to the sluggish domestic property market. In addition, given that the 29 retail stores acquired in the second quarter in 2008 have occupied a large amount of the Group’s working capital and continued to sustain losses, the Group is planning to re-sell such stores to their original owners after taking into account the adverse impact of the sagging economy on the entire furniture industry. Also, the Group is still committed to enhance its productivity and cut down its management expenses under the weakening performance of the entire industry in this year.

Through staff training, optimization and improvement of procedures and upgrading of computerization and production automation, the Group enhanced its overall efficiency so as to reinforce its costing advantages as a large, highly efficient domestic solid wood furniture manufacturer.

The total turnover for the first quarter this year recorded HK\$58,565,000, representing a reduction of 44% over the corresponding period last year. Despite the enhancement of productivity and production efficiency, gross profit margin for the first quarter



decreased to 22.9% this year from 32.2% last year, primarily attributable to the shrinkage of the domestic property market and the decrease in the number of the sales orders resulting in the reduction in the production occupancy rate of plants and the impact of increasing production costs in the PRC. In addition, from the fourth quarter last year, the Group has launched a series of price-cutting and promotional activities, which became another force for the reduction of gross profit margin. Net loss of HK\$4,636,000 was recorded for the first quarter.

## Retail Business

In the first quarter of 2009, the number of self-owned and franchised retail shops operated under the brand name of “Huari” maintained at more than 480, with an aggregate floor area of approximately 121,000 square meters (i.e. over 1.3 million square feet). The Group business focus in the coming years is to achieve rapid growth in both the number of retail points and retail floor area.

In the first quarter of 2009, the turnover and gross profit of Lang Fang Huari Furniture International Exhibition Center (Hall A) were HK\$3,510,000 and HK\$1,100,000 respectively, gross profit margin reached 31.2%. At the end of the first quarter this year, other self-owned retail shops all recorded loss which amounted to HK\$2,370,000. In general, the core business of the Group - the indirect retail operation reached a turnover of approximately HK\$41,210,000 during the period under review, representing a reduction of 54.3% over the corresponding period last year, and gross profit of approximately HK\$8,930,000, posting a decrease of 68.2% over the corresponding period last year. For the first quarter this year, it recorded a net loss of HK\$1,460,000, primarily attributable to the increase in production costs and advertising expenses and the impact of price-cutting and promotional activities.

Continuing to leverage on and strengthening its franchising business (i.e. indirect retail) that has been operating successfully over years will still be the major domestic retail strategy of the Group in the coming years.

As for the nationwide franchising business (i.e. indirect retail) of Jixiangniao, the Group commenced to revamp the key areas of Jixiangniao's overall sales model in early-2008, including the introduction of Huari's franchising operation system which has been successfully operated more than a decade, brand image design as well as management models. As at 31 March 2009, turnover and gross profit of Jixiangniao's indirect retail business amounted to HK\$7,220,000 and HK\$1,070,000 respectively, representing the increase of 52.6% and 5.9% over the corresponding period last year, and net profit amounted to approximately HK\$510,000, representing a decrease of 8.9% over the corresponding period last year.



## Outlook

The Group will endeavour to strengthen its edges in design, production and retailing with an aim to make the best preparation for the Group to be a leader in the quality household products industry in the long run.

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 still focus on enhancing the internal corporate governance as well as the quality of its services.

### 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 31 March 2009, cash and bank balances of the Group were approximately HK\$15,110,000.

As at 31 March 2009, total borrowing of the Group amounted to approximately HK\$57,000 (as at 31 March 2008: HK\$73,000), 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.

## **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 31 March 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 three months ended 31 March 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 31 March 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	37,012,000	-	-	-	37,012,000	3.07%

Save as disclosed above, as at 31 March 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 31 March 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*

Name	Nature and capacity of interest	Number of shares held	Approximate percentage of interest <i>(Note 1)</i>
<b><i>Substantial Shareholders</i></b>			
True Allied Assets Limited	Beneficial owner	351,518,000	29.22%
Ms. HUANG Ye-hua <i>(Note 2)</i>	Interest of controlled corporation	351,518,000	29.22%
Arisaig Greater China Fund Limited <i>(Note 3)</i>	Beneficial owner	107,648,000	8.95%
Arisaig Partners (Mauritius) Limited <i>(Note 3)</i>	Investment manager	107,648,000	8.95%
Cooper Lindsay William Ernest <i>(Note 3)</i>	Interest of controlled corporation	107,648,000	8.95%

<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>Other Shareholders</b>			
Mr. Zhou Xu En (Note 4)	Beneficial owner	109,382,430	9.09%
	Interest of controlled corporation	106,318,182	8.83%
Lang Fang Huari Furniture Joint Stock Co., Ltd. (廊坊華日家具股份有限公司) ("Huari Furniture") (Note 4)	Beneficial owner	106,318,182	8.83%
Ms. Xiu Jun Cheng (Note 4)	Interest of controlled corporation	106,318,182	8.83%
Mr. Zhou Tian Tang (Note 4)	Interest of controlled corporation	106,318,182	8.83%
Sino Hope Investments Limited	Beneficial owner	69,953,330	5.82%
Mr. Zhao Jiangong (Note 5)	Interest of controlled corporation	69,953,330	5.82%

*Note:*

- (1) The percentage is calculated by dividing the number of shares interested or deemed to be interested by the then existing 1,202,799,970 issued shares as at 31 March 2009.
- (2) Ms. HUANG Ye-hua is interested by virtue of her 100% beneficial interest in True Allied Assets Limited.
- (3) 107,648,000 Shares are held by Arisaig Greater China Fund Limited under management by Arisaig Partners (Mauritius) Limited in its capacity as an investment manager and Cooper Lindsay William Ernest is interested in the 107,648,000 Shares through its controlled corporation.
- (4) 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 Ms. Xiu Jun Cheng, Mr. Zhou Tian Tang and Mr. Zhou Xu En 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.
- (5) Mr. Zhao Jiangong is interested by virtue of his 100% beneficial interest in Sino Hope Investments Limited.



Save as disclosed above, as at 31 March 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 31 March 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 31 March 2009, no related hedges were made by the Group.

## **CONTINGENT LIABILITIES**

The Group and the Company 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 31 March 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 first quarterly results announcement and report for the three months ended 31 March 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.

Save as disclosed above, for the three months ended 31 March 2009, the Company complied with the code provisions of the CG Code.



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

For the three months ended 31 March 2009, 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 three months ended 31 March 2009.

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

Hong Kong, 12 May 2009

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