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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 : 08108



Third 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.*

## THIRD 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 and nine months ended 30 September 2009 together with the comparative figures.

### CONSOLIDATED INCOME STATEMENT (UNAUDITED)

For the three months and nine months ended 30 September 2009

	Notes	Three months ended 30 September		Nine months ended 30 September	
		2009 HK\$'000	2008 HK\$'000 (Restated)	2009 HK\$'000	2008 HK\$'000 (Restated)
Turnover		<b>55,702</b>	81,677	<b>175,607</b>	347,820
Cost of sales		<b>(42,871)</b>	(57,803)	<b>(137,992)</b>	(235,573)
Gross profit		<b>12,831</b>	23,874	<b>37,615</b>	112,247
Other revenue		<b>464</b>	51	<b>4,317</b>	788
Impairment loss in respect of goodwill	3	<b>(16,159)</b>	-	<b>(45,758)</b>	-
Written down of inventories		<b>(11,692)</b>	-	<b>(26,615)</b>	-
Selling and distribution costs		<b>(9,996)</b>	(7,955)	<b>(42,747)</b>	(24,530)
Administrative expenses		<b>(11,478)</b>	(6,040)	<b>(29,595)</b>	(16,717)
Other operating expenses		<b>(269)</b>	(209)	<b>(506)</b>	(252)
(Loss) profit from operations		<b>(36,299)</b>	9,721	<b>(103,289)</b>	71,536
Finance costs		<b>(88)</b>	(97)	<b>(172)</b>	(272)
(Loss) profit before taxation		<b>(36,387)</b>	9,624	<b>(103,461)</b>	71,264
Taxation	4	-	-	-	-
Net (loss) profit for the period		<b>(36,387)</b>	9,624	<b>(103,461)</b>	71,264
Interim dividend	5	-	-	-	-
Other comprehensive income:					
Exchange differences arising from translation of financial statements of subsidiaries		<b>394</b>	(1,229)	<b>(81)</b>	20,087
Total comprehensive income for the period		<b>(35,993)</b>	8,395	<b>(103,542)</b>	91,351
		<b>HK cents</b>	<b>HK cents</b>	<b>HK cents</b>	<b>HK cents</b>
(Loss) earnings per share					
- basic and diluted	6	<b>(2.8)</b>	0.8	<b>(8.0)</b>	5.9

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

	Share Capital <i>HK\$'000</i>	Share Premium <i>HK\$'000</i>	Contributed Surplus <i>HK\$'000</i>	Accumulated (Losses)/ 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 nine months ended</i>							
<i>30 September 2008</i>							
At 1 January 2008	2,405	151,778	36,000	69,103	16,720	25,779	301,785
Exchange difference arising from translation of financial statements of subsidiaries	-	-	-	-	20,087	-	20,087
Net profit for the nine months ended 30 September 2008	-	-	-	71,264	-	-	71,264
At 30 September 2008	2,405	151,778	36,000	140,367	36,807	25,779	393,136
<i>For the nine months ended</i>							
<i>30 September 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	-	-	-	-	(81)	-	(81)
Net loss for the nine months ended 30 September 2009	-	-	-	(103,461)	-	-	(103,461)
At 30 September 2009	2,769	169,277	36,000	16,078	36,367	41,481	301,972

Notes:

## 1. Basis of preparation

The Group's unaudited third 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 nine months ended 30 September 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		Nine months ended	
	30 September		30 September	
	2009	2008	2009	2008
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Manufacture and sales				
of household products	55,702	81,677	175,607	347,820

## 3. Impairment loss in respect of goodwill

During the period ended 30 September 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\$45,758,000 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 nine months ended 30 September 2009 (nine months ended 30 September 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 Huarì 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 nine months ended 30 September 2009 as all the PRC subsidiaries of the Group have recorded loss (nine months ended 30 September 2008: Nil).

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

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

#### **5. Interim Dividend**

No dividend has been paid or declared by the Company for the nine months ended 30 September 2009 (nine months ended 30 September 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 nine months ended 30 September 2009 of approximately HK\$103,461,000 (nine months ended 30 September 2008: net profit of approximately HK\$71,264,000), and the weighted average of 1,287,466,637 ordinary shares (nine months ended 30 September 2008: 1,202,799,970 ordinary shares) in issue during the nine months ended 30 September 2009 after adjusting the effects of the subscription of new shares on 27 May 2009.

There was no diluting event existing during the nine months ended 30 September 2009 and 2008.



## MANAGEMENT DISCUSSION AND ANALYSIS

### Financial and Business Review

The domestic property market showed signs of recovery in the third quarter of the year, but the weakening demand as a result of the overgrowth of the price affected the furniture market. The furniture industry remained sluggish in the third quarter of the year, among which the retail of household products was hit in particular, leading to the closing down of several industrial plants.

The gross profit margin of indirect retail operation experienced a continuous fall. For the third quarter, the Group recorded an aggregate loss of approximately HK\$103,461,000 primarily attributable to the worsening of operating environment resulting in the fall of 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 Lang Fang Huari Furniture International Exhibition Center (廊坊華日家具國際展覽中心) (Hall A). In general, high operating costs and overcapacity of the industrial plants were getting more acute.


The gross profit margin decreased from 32.3% for the corresponding period of 2008 to 21.4% this year, primarily attributable to the rise of the price of raw materials, wages and transportation costs.

With an expectation of unsatisfactory sales from developed businesses, the Group, in addition to the reduction of overall costs and operating expenses, also stepped up its efforts for optimization of the Company to achieve its long term development goals.

### Retail Business

As the orders from franchisees decreased, from the second half of 2008, the Group has launched various discount concessions and granted sales subsidies to franchisees to boost the sales and maintain the market share. During the period under review, the Group continued to leverage and strengthen its franchising business that has been operating successfully over years

For the third quarter of 2009, indirect retail sales from franchisees was approximately HK\$114,010,000, representing a decrease of 58.7% over the corresponding period last year.



Direct retail sales from the self-owned direct sale shop business was approximately HK\$33,330,000, representing a decrease of 36.9% over the corresponding period last year.

## Future Outlook

It is expected that the overall economic conditions and industrial environment will remain challenging in 2009. The Group will launch new product mix proactively to meet the general consumers' increasing emphasis on quality and optimize the Company's operating structure.

## Liquidity and Financial Resource

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 September 2009, cash and bank balances of the Group was approximately HK\$40,591,000.

As at 30 September 2009, total borrowing of the Group amounted to approximately HK\$48,000 (as at 30 September 2008: HK\$65,000), 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 30 September 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 nine months ended 30 September 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 September 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	-	351,518,000	-	388,530,000	28.06%

Save as disclosed above, as at 30 September 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 September 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</b> <i>(Note 1)</i>
<b><i>Substantial Shareholders</i></b>			
True Allied Assets Limited	Beneficial owner	351,518,000	25.38%
Mr. Li Ge <i>(Note 2)</i>	Interest of controlled corporation	351,518,000	25.38%
	Beneficial owner	37,012,000	2.68%
<b><i>Other Shareholders</i></b>			
Mr. Zhou Xu En <i>(Note 3)</i>	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") <i>(Note 3)</i>	Beneficial owner	106,318,182	7.68%
Ms. Xiu Jun Cheng <i>(Note 3)</i>	Interest of controlled corporation	106,318,182	7.68%
Mr. Zhou Tian Tang <i>(Note 3)</i>	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 September 2009.
- (2) Mr. Li Ge is interested by virtue of his 100% beneficial interest in True Allied Assets Limited.

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- (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 September 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 September 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 September 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 September 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 third quarterly results announcement and report for the nine months ended 30 September 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 to the Company.

Save as disclosed above, for the nine months ended 30 September 2009, the Company complied with the code provisions of the CG Code.

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

For the nine months ended 30 September 2009, save and except the placing of 182,000,000 shares of the Company pursuant to the placing agreement dated 15 May 2009, which was completed on 27 May 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 nine months ended 30 September 2009.

By Order of the Board  
**FAVA International Holdings Limited**  
**Zhao Guo Wei**  
*Executive Director*

Hong Kong, 9 November 2009

*As at the date of this report, 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.*