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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 2010

* For identification purpose only

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 (the “Company”) 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 the Company. 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 2010 together with the comparative figures.

CONSOLIDATED INCOME STATEMENT (UNAUDITED)

For the three months ended 31 March 2010

| | Notes | Three months ended 31 March | |
|---|-------|--------------------------------|------------------|
| | | 2010 HK\$'000 | 2009 HK\$'000 |
| Turnover | 2 | 29,537 | 58,565 |
| Cost of sales | | (24,451) | (45,132) |
| Gross profit | | 5,086 | 13,433 |
| Other revenue | | 573 | 248 |
| Other income | | 2,353 | – |
| Selling and distribution costs | | (3,397) | (11,223) |
| Administrative expenses | | (7,295) | (6,969) |
| Other operating expenses | | (924) | (108) |
| (Loss) from operations | | (3,604) | (4,619) |
| Finance costs | | (1) | (17) |
| (Loss) before taxation | | (3,605) | (4,636) |
| Taxation | 3 | – | – |
| (Loss) attributable to shareholders of the Company | | (3,605) | (4,636) |
| Interim dividend | 4 | – | – |
| Other comprehensive income: | | | |
| Exchange difference arising from translation of financial statements of subsidiaries | | 397 | (489) |
| Total comprehensive income for the period | | (3,208) | (5,125) |
| | | HK cents | HK cents |
| (Loss) per share | | | |
| – Basic | 5 | (0.26) | (0.39) |
| – Diluted | 5 | (0.26) | (0.39) |

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (UNAUDITED)

| | Share Capital HK\$'000 | Share Premium HK\$'000 | Contributed Surplus HK\$'000 | Accumulated (Losses)/ Profits HK\$'000 | Exchange Reserve HK\$'000 | Statutory Reserves HK\$'000 | Total HK\$'000 |
|---|------------------------------|------------------------------|------------------------------------|---|---------------------------------|-----------------------------------|-------------------|
| For the three months ended 31 March 2009 | | | | | | | |
| 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 | <u>2,405</u> | <u>151,778</u> | <u>36,000</u> | <u>114,903</u> | <u>35,959</u> | <u>41,481</u> | <u>382,526</u> |
| For the three months ended 31 March 2010 | | | | | | | |
| At 1 January 2010 | 2,769 | 169,277 | 36,000 | (945) | 36,560 | 41,481 | 285,142 |
| Exchange differences arising from translation of financial statements of subsidiaries | - | - | - | - | 397 | - | 397 |
| Net Loss for the three months ended 31 March 2010 | - | - | - | (3,605) | - | - | (3,605) |
| At 31 March 2010 | <u>2,769</u> | <u>169,277</u> | <u>36,000</u> | <u>(4,550)</u> | <u>36,957</u> | <u>41,481</u> | <u>281,934</u> |

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 2010 are consistent with those adopted in the annual report of the Company for the year ended 31 December 2009.

2. TURNOVER

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

| | Three months ended 31 March | |
|---|--|-------------|
| | 2010 | 2009 |
| | HK\$'000 | HK\$'000 |
| | (Unaudited) | (Unaudited) |
| Manufacture and sales of household products | 29,537 | 58,565 |

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 2010 (three months ended 31 March 2009: Nil).

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

No EIT charge for the three months ended 31 March 2010 as all the PRC subsidiaries of the Group have recorded loss (three months ended 31 March 2009: Nil).

There was no significant unprovided deferred taxation for the three months ended 31 March 2010 (three months ended 31 March 2009: Nil).

Deferred tax had not been provided as there were no significant temporary differences at the period-end date (three months ended 31 March 2009: Nil).

4. INTERIM DIVIDEND

No interim dividend has been paid or declared by the Company for the three months ended 31 March 2010 (three months ended 31 March 2009: Nil).

5. (LOSS) PER SHARE

The calculation of basic loss per share is based on the loss attributable to owners of the Company of approximately HK\$3,605,000 (2009: approximately HK\$4,636,000) and the weighted average 1,384,799,970 (2009:1,202,799,970) ordinary shares in issue during the period.

The calculation of diluted loss per share is based on the loss attributable to owners of the Company of approximately HK\$3,605,000 (2009: approximately HK\$4,636,000) and the weighted average 1,407,645,397 (2009:1,202,799,970) ordinary shares outstanding during the period, after adjusting for the effects of all dilutive potential ordinary shares.

The weighted average number of ordinary shares used in the calculation of diluted loss per share is calculated based on the weighted average 1,384,799,970 (2009: 1,202,799,970) ordinary shares in issue during the period as used in the calculation of basic loss per share plus the weighted average 22,845,427 (2009: Nil) ordinary shares deemed to be issued at no consideration as if all the Company's share options had been exercised.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS AND FINANCIAL REVIEW

Impacted by the subprime mortgage meltdown and the financial crisis in the U.S., the global economy has gone through a period of contraction and volatility during which all trades and professions were hard-hit, and the Chinese market was no exception. During the first quarter of this year, the global economic climate remained uncertain, overclouded by a slow growth in the industry.

Given the tough business environment and the sales fall in the developed business, the Group continued to consolidate its financial position on one hand and aggressively sought a “light asset” running strategy on the other hand by gradually switching to trading as its focus to improve operational efficiency and at the same time addressing the problem regarding high unit manufacturing costs due to overcapacity.

Despite the rising costs of labour, raw materials and transportation in China, the Group has yet managed to reduce the selling prices in order to preserve its market share. For this reason, the Group is seeking to maintain its market competitiveness and improve its profitability through ongoing sales development, stringent cost control and other measures. At the same time, the Group is also expanding its product categories and introducing additional products of different grades to cope with the rapid changes in the trends of the household market. This has not only facilitated the securing of a clientele at different levels, but also helped mitigate the impact of market volatility on sales.

Retail Business

Due to the fall in orders from franchisees, the Group has introduced various discount offers from time to time and provided sales subsidies to franchisees in order to boost sales and maintain market share.

As at the end of the first quarter of 2010, direct and indirect retail businesses accounted for 9.1% and 90.9% of the Group’s sales respectively. Indirect retail sales derived from franchisees amounted to approximately HK\$26,854,000, down 44.6% from the corresponding period last year. Direct retail sales derived from self-owned direct sale shop business amounted to approximately HK\$2,683,000, down 73.5% from the corresponding period of 2009.

Although the current Chinese economy has begun to make a step forward in recovery, the desire for consumption in the household market will remain weak for some time resulting from high property price. Consumers have become more rational and more demanding for product quality and style. This has relatively reduced our market share.

From 1 January this year, the Group has contracted out the self-owned direct sale shops which did not perform satisfactorily last year as well as the indirect retail business related to Jixiangniao brand. Contractors assumed sole responsibilities for their profits or losses, subject to a monthly contracting fee of certain amount payable to the Group. The business segment in the Lang Fang Huari Furniture International Exhibition Center (Hall A) became the only self-owned direct sale shop retained. This move could reduce the Group's operating costs and risks, enabling the Group to advance further towards the "light asset" operation objective while assuring its profitability. The Group will concentrate its efforts on consolidating and developing the indirect retail business. During the period under review, the Group focused on strengthening business fundamentals and enhancing operational efficiency.

PROSPECTS

It is anticipated that this year will be a year of turning tides for the world economy, confronted by both challenges as well as opportunities. The Group will make unremitting efforts to improve itself and overcome the obstacles ahead. In this respect, the management is full of confidence.

The Group believes that the success of an enterprise rests upon the concerted efforts of the management and all the employees, therefore it is committed to recruit and provide training to high-quality new employees as well as to retain skilled and experienced employees for delivering better services to customers. The Group also mobilizes the enthusiasm of employees through remunerations package and fringe benefits such as the share option scheme and the commitment to staff training.

The Group is also seeking to identify suitable acquisition targets and expects these acquisitions will generate new growth points for the Group for sustaining its future development.

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 31 March 2010, cash and bank balances of the Group was approximately HK\$38,527,000.

As at 31 March 2010, total borrowing of the Group amounted to approximately HK\$40,000 (as at 31 March 2009: approximately HK\$57,000), 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 2010, none of the Directors or chief executives of the Company held any share options.

CODE OF CONDUCT REGARDING SECURITIES TRANSACTIONS BY DIRECTORS

During the three months ended 31 March 2010, the Company had adopted a code of conduct regarding securities transactions by directors on terms no less exacting than the required standard of dealings as set out in Rules 5.48 to 5.67 of the GEM Listing Rules. The Company also had made specific enquiry of all Directors and the Company was not aware of any non-compliance with the required standard of dealings and its code of conduct regarding securities transactions by directors.

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

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

As at 31 March 2010, the interests and short positions of the Directors and chief executive of the Company in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO), which are required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 & 8 of Part XV of the SFO (including interests and short positions which they are taken or deemed to have under such provisions of the SFO) or which are required pursuant to Section 352 of the SFO to be entered in the register referred to therein, or as otherwise notified to the Company and

the Stock Exchange pursuant to the required standard of dealings by directors as referred to in Rules 5.48 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 | | | | | 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 | Total | |
| Mr. Li Ge | 37,012,000 | - | 351,518,000 | - | 388,530,000 | 28.06% |

Save as disclosed above, as at 31 March 2010, none of the Directors and chief executive of the Company was, under Divisions 7 & 8 of Part XV of the SFO, taken to be interested or deemed to have any other interests or short positions in the shares, underlying shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) that were required to be entered into the register kept by the Company pursuant to Section 352 of the SFO or were required to be notified to the Company and the Stock Exchange pursuant to the GEM Listing Rules.

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

So far as were known to the Directors or chief executive of the Company, as at 31 March 2010, the following persons (other than the Directors and chief executive of the Company as disclosed above) had interests and/or short positions of 5% or more of the shares and

underlying shares of the Company as recorded in the register of interests required to be kept by the Company pursuant to Section 336 of the SFO:

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

| Name | Nature and capacity of interest | Number of shares held | Approximate percentage of interest <i>(Note 1)</i> |
|----------------------------|------------------------------------|-----------------------|---|
| 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% |

Note:

- (1) The percentage is calculated by dividing the number of shares interested or deemed to be interested by the then existing 1,384,799,970 issued shares as at 31 March 2010.
- (2) Mr. Li Ge is interested by virtue of his 100% beneficial interest in True Allied Assets Limited.

Save as disclosed above, as at 31 March 2010, the Board is not aware of any other persons, other than the Directors and chief executive 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 2010 (2009: Nil).

FOREIGN CURRENCY RISK

As most of the Group’s monetary assets and liabilities were denominated in Renminbi and Hong Kong dollars, the exchange rate risks of the Group were considered to be minimal. As at 31 March 2010, no related hedges were made by the Group.

CONTINGENT LIABILITIES

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

AUDIT COMMITTEE

The Company has established an audit committee in July 2000 with its written terms of reference pursuant to Rules 5.28 to 5.33 of the GEM Listing Rules. Approved by the then directors attending the Board meeting held on 7 December 2006, the terms of reference set out in “A Guide for Effective Audit Committees”, published by HKICPA in February 2002, were adopted as written terms of reference for the audit committee of the Company. As at 31 March 2010, the audit committee comprised three members, namely Mr. LEE Yuen Kwong, Mr. YANG Dongli and Mr. YANG Jie, being independent non-executive Directors of the Company.

The primary duties of the audit committee are to review and supervise the financial reporting process and internal control systems of the Group and to provide advice and comments to the Board. The audit committee has reviewed the Group’s first quarterly results announcement and report for the three months ended 31 March 2010 and provided advice and recommendations to the Board. After the review of the financial statements, the members of the audit committee were of the opinion that such statements comply with the applicable accounting standards, the GEM Listing Rules and other applicable laws and regulations and that adequate disclosure had been made.

CORPORATE GOVERNANCE PRACTICES

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

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

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

- the three independent non-executive Directors form the majority of the five member Board;
- the Audit Committee is composed exclusively of independent non-executive Directors; and

- the independent non-executive Directors could have free and direct access to the Company's external auditors and independent professional advice whenever necessary.

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

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

Save as disclosed above, for the three months ended 31 March 2010, the Company complied with the code provisions of the CG Code.

SHARE OPTION SCHEME

On 22 January 2010, the Company has granted 110,400,000 share options pursuant to the Company's Share Option Scheme adopted on 24 May 2002. The share options entitle the offerees to subscribe for a total of 110,400,000 ordinary shares of HK\$0.002 each in the capital of the Company upon exercise in full. The exercise price of share options granted is HK\$0.1374, and the validity period is two years which commenced from the date of grant to 21 January 2012. No option has been exercised for the three months ended 31 March 2010.

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

For the three months ended 31 March 2010, there was no purchase, sale or redemption by the Company, or any of its subsidiaries, of the Company's listed securities.

COMPETING INTEREST

None of the Directors or the management shareholders of the Company (as defined in the GEM Listing Rules) or their respective associates had any interest in any business which competed or might compete with the business of the Group for the three months ended 31 March 2010.

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

Hong Kong, 11 May 2010

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.
