



FIRST
QUARTERLY
REPORT
2011



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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

* For identification purpose only



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This report, for which the directors of the Company (the "Directors") 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 the information contained in this report 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 report misleading.



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 2011 together with the comparative figures.

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (UNAUDITED)

For the three months ended 31 March 2011

		Three months ended 31 March	
	<i>Notes</i>	2011 HK\$'000	2010 HK\$'000
Turnover	2	33,074	29,537
Cost of sales		(26,655)	(24,451)
Gross profit		6,419	5,086
Other revenue		64	573
Other income		349	2,353
Selling and distribution costs		(3,597)	(3,397)
Administrative expenses		(7,747)	(7,295)
Other Operating expenses		(59)	(924)
Loss from operations		(4,571)	(3,604)
Finance costs		(1)	(1)
Loss before taxation		(4,572)	(3,605)
Taxation	3	–	–
Loss for the period		(4,572)	(3,605)
Interim dividend	4	–	–
Other comprehensive income for the period, net of tax			
Exchange differences on translating foreign operations		2,225	397
Total comprehensive loss for the period		(2,347)	(3,208)
Loss attributable to owners of the Company		(4,572)	(3,605)
Total comprehensive loss attributable to owners of the Company		(2,347)	(3,208)
		HK cents	HK cents
Loss per share			
– Basic and diluted	5	(0.26)	(0.26)

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (UNAUDITED)

	Share Capital HK\$'000	Share Premium HK\$'000	Contributed Surplus HK\$'000	Accumulated (losses) HK\$'000	Share options reserve HK\$'000	Exchange reserve HK\$'000	Statutory reserves HK\$'000	Total equity HK\$'000
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
Loss for the period	–	–	–	(3,605)	–	–	–	(3,605)
Other comprehensive income for the period	–	–	–	–	–	397	–	397
Total comprehensive (loss)/income for the period	–	–	–	(3,605)	–	397	–	(3,208)
At 31 March 2010	<u>2,769</u>	<u>169,277</u>	<u>36,000</u>	<u>(4,550)</u>	<u>–</u>	<u>36,957</u>	<u>41,481</u>	<u>281,934</u>
For the three months ended								
31 March 2011								
At 1 January 2011	3,489	216,838	36,000	(32,562)	3,174	35,631	43,500	306,070
Loss for the period	–	–	–	(4,572)	–	–	–	(4,572)
Other comprehensive income for the period	–	–	–	–	–	2,225	–	2,225
Total comprehensive (loss)/income for the period	–	–	–	(4,572)	–	2,225	–	(2,347)
At 31 March 2011	<u>3,489</u>	<u>216,838</u>	<u>36,000</u>	<u>(37,134)</u>	<u>3,174</u>	<u>37,856</u>	<u>43,500</u>	<u>303,723</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 disclosures 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 2011 are consistent with those adopted in the annual report of the Company for the year ended 31 December 2010.

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	
	2011	2010
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Manufacture and sales of household products	33,074	29,537



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 2011 (three months ended 31 March 2010: Nil).

The PRC enterprise income tax ("EIT") represents tax charges on the assessable profit of the PRC subsidiary of the Group at the prevailing tax rates applicable. The PRC subsidiary 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.

No EIT was charged for the three months ended 31 March 2011 as the PRC subsidiary of the Group have recorded loss (three months ended 31 March 2010: Nil).

There was no significant unprovided deferred taxation for the three months ended 31 March 2011 (three months ended 31 March 2010: Nil).

Deferred tax had not been provided as there were no significant temporary differences at the period-end date (three months ended 31 March 2010: Nil).

4. INTERIM DIVIDEND

No interim dividend has been paid or declared by the Company for the three months ended 31 March 2011 (three months ended 31 March 2010: 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\$4,572,000 (2010: approximately HK\$3,605,000) and the weighted average 1,744,555,970 (2010: 1,384,799,970) ordinary shares in issue during the period.

Diluted loss per share for three months ended 31 March 2011 had not been shown as the exercise or outstanding share options of the Company during the period had an anti-diluted effect on the basic loss per share for the period.

There was no diluting event existing during the three months ended 31 March 2011 and 2010.





MANAGEMENT DISCUSSION AND ANALYSIS

Business and Financial Review

Over the past year, as wages and raw material costs kept rising and the Central Government continued to put forth measures to cool down the housing market (especially in the first-and-second tier cities), potential home buyers put off their home purchase plans and market demands for furniture slowed down as well, thus exerting great influence on the Group's profitability. Nevertheless, with the ongoing recovery of the overall economic conditions, market demands in the furniture industry have been increasing. Upon our disposal of all non-performing assets, the Group's performance results, though still not satisfactory, already showed signs of improvement.

Retail Business

As at the end of the first quarter of 2011, direct and indirect retail sales accounted for 9.97% and 90.03% of the Group's total sales respectively. Indirect retail sales derived from franchisees amounted to approximately HK\$29,777,000, up by 10.9% over the corresponding period last year. Direct retail sales derived from self-owned direct sale shop business amounted to approximately HK\$3,297,000, down by 22.9% over the corresponding period of 2010. The decrease was mainly due to the fact that the Group only maintained the business of Lang Fang Huari Furniture International Exhibition Center ("Hall A").

Gross profit increased by 26% from approximately HK\$5,086,000 in 2010 to approximately HK\$6,419,000. Gross profit margin increased from 17.22% in the corresponding period last year to 19.41% this year, mainly as a result of the continuous decrease in the various discounts offered by the Group and the sales subsidies provided to franchisees in light of the continuous improvement in sales.

Operating expenses of the Group amounted to approximately HK\$11,403,000, slightly down by approximately HK\$213,000 as compared to approximately HK\$11,616,000 in the corresponding period last year. This was mainly attributable to the fact that the Group had stepped up advertising and promotion while selling all the loss-making businesses to cut the costs of sales, which made the Group's selling expenses broadly the same as that in the corresponding period last year. Given that raw material, wages and other costs kept rising while sales revenue only posted marginal increase, and part of the subsequent expenses in relation to the proposed acquisitions took place in the third quarter last year were recorded during the period, net loss went up from approximately HK\$3,605,000 in the corresponding period last year to approximately HK\$4,572,000 this year.

In 2010, the Group disposed of all the under-performing self-owned direct sale shops and indirect retail sales businesses related to the Jixiangniao brand, keeping only the business of Lang Fang Huari Furniture International Exhibition Center ("Hall A") for its self-owned direct sale shop business, thus reducing both the operating costs and risks of the Group and making it one stride closer to the operating mode of light assets.



Prospects

The furniture industry in China presents promising prospects against the macro-economic environment created by the “12th Five-year Plan” of the Central Government under the policies of boosting domestic consumption and pressing ahead with the urbanization.

This year is expected to be rewarding and challenging. We are confident in confronting the challenges lying ahead. The Group will actively adopt the strategy of operating with light assets and shift our business focus to trading so as to raise operating efficiency.

In terms of product design, the Group will strive to improve its product portfolios by introducing products of other different classes to our existing four major series of solid wood furniture featuring various styles, from modern Chinese to northern European natural styles. In terms of manufacturing and wholesale (i.e. so-called “indirect sales”), as the plants, offices and Hall A rented by the Group in the old factory area fall under the removal plan of the Administrative Committee of Langfang Economic and Technical Development Zone, it is expected that production will be delayed to some extent and expenses will be incurred during the relocation, thus reducing the Group’s net profit. The Group will take measures to minimize its losses.

By identifying suitable acquisition targets, the Group also strives to bring new growing points through acquisitions, which is in turn conducive to the Group’s future development.





MEMORANDUM OF UNDERSTANDING

On 20 September 2010, EMAX Venture Limited (the “Purchaser”), a wholly-owned subsidiary of the Company, entered into the memorandum of understanding (“MOU”) with an individual (the “Vendor”) who is the controlling shareholder of the target company (the “Target Company”) under the proposed acquisition, 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 are principally engaged in the retail business of fashionable products and accessories in Hong Kong and the PRC.

The consideration of the Proposed Acquisition is expected to be in the range from HK\$600,000,000 to HK\$800,000,000.

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 in the amount of HK\$40,000,000 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.

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 2011, cash and bank balances of the Group was approximately HK\$58,544,000.

As at 31 March 2011, total borrowing of the Group amounted to approximately HK\$23,000 (as at 31 March 2010: approximately HK\$40,000), 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 9 December 2010, 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 2011, 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 2011, 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 2011, 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 5.46 of the GEM Listing Rules were as follows:

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

Number of shares held, capacity and nature of interest

Name of director	Directly beneficially owned	Through spouse or minor children	Through controlled corporation	Beneficiary of a trust	Total	Approximate percentage of the Company's total issued share capital
						(Note 1)
Mr. Li Ge	37,012,000	-	351,518,000	-	388,530,000	22.27%

Note:

- (1) The percentage is calculated by dividing the number of shares interested or deemed to be interested by the then existing 1,744,555,970 issued shares as at 31 March 2011.

Save as disclosed above, as at 31 March 2011, 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 2011, 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>
Substantial Shareholders			
True Allied Assets Limited	Beneficial owner	351,518,000	20.15%
Mr. Li Ge <i>(Note 2)</i>	Interest of controlled corporation	351,518,000	20.15%
	Beneficial owner	37,012,000	2.12%

Note:

- (1) The percentage is calculated by dividing the number of shares interested or deemed to be interested by the then existing 1,744,555,970 issued shares as at 31 March 2011.
- (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 2011, the Directors are 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 2011 (2010: 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 2011, 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 2011, 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 2011 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 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 and non-executive Director could have free and direct access to the Company’s external auditors and independent professional advice whenever necessary.

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

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

Save as disclosed above, for the three months ended 31 March 2011, the Company complied with the code provisions of the CG Code.



OLD SHARE OPTION SCHEME

Pursuant to the share option scheme adopted by the shareholders of the Company on 24 May 2002 (the "Old Share Option Scheme"), the Board could for a consideration of HK\$1.00 offer to selected eligible persons (as defined in the circular of the Company dated 6 May 2002) to subscribe for shares of the Company as incentive or rewards for their contribution to the Group. The Old Share Option Scheme became effective on 24 May 2002 (the date on which the Share Option Scheme was adopted) and terminated on 9 December 2010. The subscription price under the Old Share Option Scheme was determined by the Board in its absolute discretion, in any event, was not less than the higher of the nominal value for the time being of each share of the Company, the average closing price of the shares of the Company as stated in the Stock Exchange's daily quotations sheets for the five business days immediately preceding the date on which the relevant option was granted and the closing price of the shares of the Company as stated in the Stock Exchange's daily quotation sheet on the date on which the relevant option was granted.

The maximum number of shares in respect of which options may be granted under the Old Share Option Scheme and other schemes of the Company may not, in aggregate, exceed 30% of the issued share capital of the Company from time to time which have been duly allotted and issued. The total number of shares issued and to be issued upon exercise of the options granted (including both exercised and outstanding options) in any 12-month period to each eligible person shall not exceed 1% of the shares in issue. An option may be exercised in whole or in part at any time during the Option Period (as defined in the circular of the Company dated 6 May 2002).

The details and major provisions of the Old Share Option Scheme were set out in the circular of the Company dated 6 May 2002. The details of the termination of the Old Share Option Scheme were set out in the circular of the Company dated 24 November 2010.

On 22 January 2010 and 28 September 2010 (the "Date of Grant"), the Company has granted 110,400,000 and 27,600,000 share options to certain Eligible Persons (as defined in the Old Share Option Scheme) (the "Offerees") respectively, pursuant to the Old Share Option Scheme, representing approximately 7.972% and 1.9166% of the issued share capital of the Company as at 22 January 2010 and 28 September 2010 respectively. The share options entitle the offerees to subscribe for a total of 138,000,000 ordinary shares of HK\$0.002 each in the capital of the Company upon exercise in full. The exercise prices of the share options granted were HK\$0.1374 and HK\$0.157 respectively, and the validity and exercise periods were two years and one year respectively, both commencing from the date of grant.

No option has been exercised for the three months ended 31 March 2011.



NEW SHARE OPTION SCHEME

On 9 December 2010, the company adopted the new share option scheme (the “New Share Option Scheme”). Pursuant to the New Share Option Scheme, the Board may for a consideration of HK\$1.00 offer to selected eligible persons (as defined in the circular of the Company dated 23 November 2010) to subscribe for shares of the Company as incentive or rewards for their contribution to the Group. The subscription price will be determined by the Board in its absolute discretion, in any event, shall not be less than the higher of the nominal value for the time being of each share of the Company, the average closing price of the shares of the Company as stated in the Stock Exchange’s daily quotations sheets for the five business days immediately preceding the date on which the relevant option is granted and the closing price of the shares of the Company as stated in the Stock Exchange’s daily quotation sheet on the date on which the relevant option is granted.

The maximum number of shares in respect of which options may be granted under the New Share Option Scheme and other schemes of the Company may not, in aggregate, exceed 30% of the issued share capital of the Company from time to time which have been duly allotted and issued. The total number of shares issued and to be issued upon exercise of the options granted (including both exercised and outstanding options) in any 12-month period to each eligible person shall not exceed 1% of the shares in issue. If any further grant of options to such eligible person which would result in the shares issued or to be issued upon exercise of all options granted or to be granted to such eligible person (including exercised, cancelled and outstanding options) in the 12-month period up to and including the date of further grant would exceed 1% of the shares in issue, such grant must be separately approved by shareholders in general meeting, with such eligible person and its associates abstaining from voting. A shareholders’ circular containing the information required by the GEM Listing Rules shall be despatched to the shareholders. An option may be exercised in whole or in part at any time during the Option Period (as defined in the circular of the Company dated 23 November 2010).

The New Share Option Scheme became effective for a period of 10 years commencing on 9 December 2010 (the date on which the New Share Option Scheme was adopted).

The details and major provisions of the New Share Option Scheme were set out in the circular of the Company dated 23 November 2010.

The Company has not grant any options under the New Share Option Scheme for the three months ended 31 March 2011.





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

For the three months ended 31 March 2011, 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 2011.

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

Hong Kong, 9 May 2011

As at the date of this report, the Board comprises of Mr. LI Ge and 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 Dongli and Mr. YANG Jie as independent non-executive Directors.