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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



Third Quarterly Report  
2008



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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 Growth Enterprise Market of The Stock Exchange of Hong Kong Limited (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”) presents the unaudited consolidated financial statements of the Company and its subsidiaries (the “Group”) for the three months and nine months ended 30 September 2008 together with the comparative figures.

### CONSOLIDATED INCOME STATEMENT (UNAUDITED)

For the three months and nine months ended 30 September 2008

	Notes	Three months ended 30 September		Nine months ended 30 September	
		2008 HK\$'000	2007 HK\$'000 (Restated)	2008 HK\$'000	2007 HK\$'000 (Restated)
Turnover	2	<b>81,677</b>	132,070	<b>347,820</b>	296,719
Cost of sales		<b>(57,803)</b>	(89,685)	<b>(235,573)</b>	(199,591)
Gross profit		<b>23,874</b>	42,385	<b>112,247</b>	97,128
Other revenue		<b>51</b>	505	<b>788</b>	829
Sales and marketing expenses		<b>(3,504)</b>	-	<b>(14,304)</b>	-
Operating expenses		<b>(4,451)</b>	-	<b>(10,226)</b>	-
Administrative expenses		<b>(6,040)</b>	(4,623)	<b>(16,717)</b>	(10,137)
Other operating expenses		<b>(209)</b>	(6,722)	<b>(252)</b>	(10,781)
Profit from operations		<b>9,721</b>	31,545	<b>71,536</b>	77,039
Finance costs		<b>(97)</b>	(51)	<b>(272)</b>	(417)
Net unrealised holding loss on other investments in unit trust		-	(58)	-	(211)
Profit before taxation		<b>9,624</b>	31,436	<b>71,264</b>	76,411
Taxation	3	-	(277)	-	(977)
Net profit for the period		<b>9,624</b>	31,159	<b>71,264</b>	75,434
Dividend	4	-	-	-	-
		<b>HK cents</b>	HK cents	<b>HK cents</b>	HK cents
Profit per share	5	<b>0.8</b>	5.3	<b>5.9</b>	12.9

## CONSOLIDATED BALANCE SHEET

		<b>30 September 2008</b>	31 December 2007
	<i>Notes</i>	<b>HK\$'000</b> <b>(Unaudited)</b>	<i>HK\$'000</i> <i>(Audited)</i>
<b>NON-CURRENT ASSETS</b>			
Property, plant and equipment		<b>125,969</b>	76,640
Goodwill		<b>80,247</b>	75,108
Intangible assets		<b>29,121</b>	7,936
Long term prepayments		<b>12,208</b>	14,165
		<b>247,545</b>	173,849
<b>CURRENT ASSETS</b>			
Inventories	7	<b>168,735</b>	101,872
Trade and bills receivables	8	<b>27,439</b>	22,338
Prepayments, deposits and other receivables	9	<b>90,335</b>	76,396
Pledged bank deposits		-	2,799
Cash and bank balances	10	<b>55,563</b>	55,477
		<b>342,072</b>	258,882
<b>CURRENT LIABILITIES</b>			
Trade payables	11	<b>30,750</b>	19,394
Other payables and accrued liabilities	12	<b>33,658</b>	16,968
Received in advance		<b>39,945</b>	19,399
Tax payable		<b>11,816</b>	-
Consideration payable for acquisition -due within one year		<b>32,099</b>	31,556
Obligations under finance lease -due within one year		<b>17</b>	16
		<b>148,285</b>	87,333
<b>NET CURRENT ASSETS</b>		<b>193,787</b>	171,549
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		<b>441,332</b>	345,398
<b>NON-CURRENT LIABILITIES</b>			
Consideration payable for acquisition -due within one year		<b>48,148</b>	43,552
Obligations under finance lease -due after one year		<b>48</b>	61
		<b>48,196</b>	43,613
<b>NET ASSETS</b>		<b>393,136</b>	301,785
<b>CAPITAL AND RESERVES</b>			
Share Capital	13	<b>2,405</b>	2,405
Reserves		<b>390,731</b>	299,380
		<b>393,136</b>	301,785

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

	Share Capital	Share Premium	Contributed Surplus	Accumulated (Losses)/ Profits	Exchange Reserve	Statutory Reserves	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
<i>For the nine months ended</i>							
<i>30 September 2007</i>							
At 1 January 2007	2,005	47,267	36,000	(30,604)	1,114	7,388	63,170
Subscription of shares	400	-	-	-	-	-	400
Premium arising from issue of of new shares, net of expenses	-	104,511	-	-	-	-	104,511
Exchange difference arising from translation of financial statements of subsidiaries	-	-	-	-	6,469	-	6,469
Net profit for the nine months ended 30 September 2007	-	-	-	75,434	-	-	75,434
At 30 September 2007	2,405	151,778	36,000	44,830	7,583	7,388	249,984
<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 differences 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

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 disclosures 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 by the Hong Kong Companies Ordinance.

These financial statements have been prepared under the historical cost convention.

The accounting policies adopted in preparing the unaudited condensed consolidated financial statements for the nine months ended 30 September 2008 are consistent with those adopted in the annual report of the Company for the year ended 31 December 2007.

## 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:

	<b>Three months ended</b>		<b>Nine months ended</b>	
	<b>30 September</b>		<b>30 September</b>	
	<b>2008</b>	2007	<b>2008</b>	2007
	<b>HK\$'000</b>	HK\$'000	<b>HK\$'000</b>	HK\$'000
Manufacture and sales of household products	<b>81,677</b>	132,070	<b>347,820</b>	296,719

**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 2008 (nine months ended 30 September 2007: 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. Ltd\* (廊坊華日恒宇家居有限公司), which is formerly known as Langfang Hengyu Home Co., Ltd\* (廊坊恒宇家居有限公司), is categorised as a foreign investment enterprise and is entitled to preferential tax treatments ("Preferential Tax Treatments") including full exemption from EIT for the initial 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., Ltd\* (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 2008 (nine months ended 30 September 2007: Approximately HK\$977,000).

There was no significant unprovided deferred taxation for the nine months ended 30 September 2008 (nine months ended 30 September 2007: Nil).

Deferred tax had not been provided as there were no significant temporary differences at the period-end date (2007: Nil).

**4. Dividend**

No dividend has been paid or declared by the Company for the nine months ended 30 September 2008 (nine months ended 30 September 2007: Nil).

**5. Profit per share**

The calculation of the basic profit per share is based on the Group's net profit for the nine months ended 30 September 2008 of approximately HK\$71,264,000 (nine months ended 30 September 2007: net profit of approximately HK\$75,434,000), and the weighted average of 1,202,799,970 ordinary shares (nine months ended 30 September 2007: 586,725,406 ordinary shares) in issue during the nine months ended 30 September 2008. The basic profit per share for the nine months ended 30 September 2007 is adjusted accordingly.

Diluted profit per share for the nine months ended 30 September 2008 and 2007 have not been disclosed as no diluting events existed during these periods.



## 6. Segment information

Segment information is presented by way of two segment formats: (i) on a primary segment reporting basis, by business segment; and (ii) on a secondary segment reporting basis, by geographical segment.

The Group's operating businesses are structured and managed separately, according to the nature of their operations and the products and services they provide. Each of the Group's business segments represents a strategic business unit that offers products and services that are subject to risks and returns which are different from those of the other business segments. Summary details of the business segments are as follows:

- (i) Indirect retail of household products and others; and
- (ii) Direct retail of household products.

In determining the Group's geographical segments, revenues are attributed to the segments based on the location of the customers, and assets are attributed to the segments based on the location of the assets.

Inter-segment sales and transfers are transacted with reference to the selling prices used for sales made to third parties at the then prevailing market prices.

Segment assets consist primarily of property, plant and equipment, inventories, trade and other receivables and cash and bank balances.

Segment liabilities comprise operating liabilities.

Unallocated assets mainly comprise financial and corporate assets, tax balances and corporate and financing expenses.

(a) **Business segments**

The following tables present revenue, profit and certain asset, liability and expenditure information for the Group's business segments for the nine months ended 30 September 2008 and 2007.

	Direct retail of household products		Indirect retail of household products and others		Total	
	2008	2007	2008	2007	2008	2007
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
	<i>(Unaudited)</i>	<i>(Unaudited)</i>	<i>(Unaudited)</i>	<i>(Unaudited)</i>	<i>(Unaudited)</i>	<i>(Unaudited)</i>
Segment revenue						
Sales to external customers	<b>51,997</b>	10,350	<b>295,823</b>	286,369	<b>347,820</b>	296,719
Segment results	<b>21,614</b>	5,339	<b>90,633</b>	91,789	<b>112,247</b>	97,128
Interest income and unallocated corporate revenue					<b>788</b>	611
Corporate and other unallocated expenses					<b>(41,499)</b>	(21,328)
Finance costs					<b>(272)</b>	-
Profit before taxation					<b>71,264</b>	76,411
Taxation					<b>-</b>	(977)
Net profit for the period					<b>71,264</b>	75,434

	Direct retail of		Indirect retail		Total	
	household products		of household			
	2008	2007	2008	2007	2008	2007
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	
<b>Assets and liabilities</b>						
Segment assets	<b>62,982</b>	8,192	<b>526,212</b>	286,254	<b>589,194</b>	294,446
Corporate and other unallocated assets					<b>423</b>	1,351
Total assets					<b>589,617</b>	295,797
Segment liabilities	<b>20,654</b>	4,471	<b>169,886</b>	40,152	<b>190,540</b>	44,623
Corporate and other unallocated liabilities					<b>5,941</b>	1,190
Total liabilities					<b>196,481</b>	45,813

	Direct retail of		Indirect retail		Unallocated		Total	
	household products		of household					
	2008	2007	2008	2007	2008	2007	2008	2007
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	
<b>Other segment information</b>								
Depreciation	<b>1,630</b>	-	<b>14,670</b>	10,442	-	-	<b>16,300</b>	10,442
Capital expenditure	<b>4,959</b>	-	<b>3,280</b>	79,420	<b>31</b>	91	<b>8,270</b>	79,511

**(b) Geographical segments**

During the period under review, the Group's turnover was mainly derived from customers located in the PRC, United States of America ("USA") and European Union. All assets of the Group are located in the PRC (including Hong Kong). Over 95% of the Group's results, assets, assets and capital expenditures are derived from operations carried out in the PRC. Accordingly, no further geographical segment information is presented in the financial statements except for turnover.

	Direct retail of household products		Indirect retail of household products and others		Total	
	2008 <i>HK\$'000</i> <i>(Unaudited)</i>	2007 <i>HK\$'000</i> <i>(Unaudited)</i>	2008 <i>HK\$'000</i> <i>(Unaudited)</i>	2007 <i>HK\$'000</i> <i>(Unaudited)</i>	2008 <i>HK\$'000</i> <i>(Unaudited)</i>	2007 <i>HK\$'000</i> <i>(Unaudited)</i>
Sales						
The PRC	<b>51,997</b>	11,218	<b>286,911</b>	252,097	<b>338,908</b>	263,315
USA	-	-	<b>3,571</b>	7,332	<b>3,571</b>	7,332
European Union	-	-	<b>4,832</b>	25,571	<b>4,832</b>	25,571
Others	-	-	<b>509</b>	501	<b>509</b>	501
	<b>51,997</b>	11,218	<b>295,823</b>	285,501	<b>347,820</b>	296,719

Sales are allocated based on the countries in which customers are located.

**7. Inventories**

	As at <b>30 September</b> <b>2008</b> <i>HK\$'000</i> <i>(Unaudited)</i>	As at 31 December 2007 <i>HK\$'000</i> <i>(Audited)</i>
Raw materials	<b>92,546</b>	47,797
Work in progress	<b>22,778</b>	25,853
Finished goods	<b>53,411</b>	28,222
	<b>168,735</b>	101,872

## 8. Trade and bills receivables

The Group generally allows a credit period from one month to two months. However, for certain customers with long-established relationship and good payment histories, a longer credit period may be granted.

An aging analysis of the trade and bill receivables as at the balance sheet date, based on the invoice date and net of provisions, is as follows:

	<b>As at 30 September 2008 HK\$'000 (Unaudited)</b>	As at 31 December 2007 HK\$'000 (Audited)
0 – 60 days	<b>10,597</b>	18,027
61 – 90 days	<b>857</b>	1,320
91 – 180 days	<b>6,080</b>	967
Over 180 days	<b>9,905</b>	2,024
	<b>27,439</b>	22,338

The Directors considered that the carrying values of trade and bills receivables approximate their fair values.

## 9. Prepayments, deposits and other receivables

	<b>As at 30 September 2008 HK\$'000 (Unaudited)</b>	As at 31 December 2007 HK\$'000 (Audited)
Prepayments	<b>75,148</b>	70,495
Deposits and other receivables	<b>15,187</b>	5,902
	<b>90,335</b>	76,397
Less: Provision for impairment of other receivables	-	(1)
	<b>90,335</b>	76,396

Prepayments, deposits and other receivables are non-interest bearing and the Directors considered that the carrying values of prepayments, deposits and other receivables approximate their fair values.

## 10. Cash and bank balances

	<b>As at 30 September 2008 HK\$'000 (Unaudited)</b>	As at 31 December 2007 HK\$'000 (Audited)
Cash and bank balances	<b>55,563</b>	55,477

At the balance sheet date, the cash and bank balances of the Group denominated in Renminbi ("RMB") amounted to approximately HK\$55,317,000 (as at 30 September 2007: approximately HK\$75,055,000). RMB is not freely convertible into other currencies. However, under the Foreign Exchange Control Regulations and the Administration of Settlement, Sale and Payment of Foreign Exchange Regulations of the PRC, the Group is permitted to exchange RMB for other currencies through banks which are authorised to conduct foreign exchange business.

## 11. Trade payables

An aging analysis of the trade payables as at the balance sheet date, based on the invoice date, is as follows:

	<b>As at 30 September 2008 HK\$'000 (Unaudited)</b>	As at 31 December 2007 HK\$'000 (Audited)
0 – 60 days	<b>19,582</b>	13,029
61 – 90 days	<b>3,540</b>	1,434
91 – 180 days	<b>3,469</b>	4,181
Over 180 days	<b>4,159</b>	750
	<b>30,750</b>	19,394

Trade payables are non-interest bearing and the Directors considered that the carrying values of trade payables approximate their fair values.

## 12. Other payables and accrued liabilities

	<b>As at 30 September 2008 HK\$'000 (Unaudited)</b>	As at 31 December 2007 HK\$'000 (Audited)
Other payables	<b>25,252</b>	13,946
Accruals	<b>4,388</b>	2,352
Amount due to a shareholder	<b>1,618</b>	670
Amount due to a director	<b>2,400</b>	–
	<b>33,658</b>	16,968

Other payables and accrued liabilities are non-interest-bearing and the Directors considered that the carrying value of accrued liabilities and other payables approximate their fair values.

## 13. Share capital

### Ordinary shares

	<b>Par Value HK\$</b>	<b>Number of shares '000</b>	<b>Shares capital HK\$'000</b>
<b>Authorised:</b>			
At 31 December 2007	0.002	250,000,000	500,000
At 1 January 2008	0.002	250,000,000	500,000
At 30 September 2008	0.002	250,000,000	500,000
<b>Issued and fully paid:</b>			
At 31 December 2007	0.002	1,202,800	2,405
At 1 January 2008	0.002	1,202,800	2,405
At 30 September 2008	0.002	1,202,800	2,405



## MANAGEMENT DISCUSSION AND ANALYSIS

### Financial and Business Review

From January to September 2008, China was once hit by a rare snowstorm that affected more than 20 provinces, municipalities and autonomous regions, and the Sichuan earthquake in May. During the Olympic Games and the Paralympic Games in August and September, the traffic restrictions in Beijing and Hebei regions as well as Chinese residents' passion for the games also dampened residents' purchasing desire for furniture, which in turn hit the furniture sales market heavily. In addition, the macro economic control initiatives aimed at the real property sector during the second half of the year had mitigated, to a certain extent, the demand for furniture in "first-tier" cities and the pace of the PRC's economic growth, posing an array of challenges to enterprises in Mainland China. Though the Group's possession of an extensive retail network covering a total of more than 170 cities in the PRC to date, there had certain impact on the overall retail business.

From the analysis of the consumers in the mid-to-high-end solid wood furniture sector, since residents in the "second – and third-tier" cities in the Mainland are less involved in stock market and property market speculation, and there is a lack of supply of solid wood furniture in these cities and even in all parts of the PRC by manufacturers like Huari that possesses a brand of more than 15 years' historical standing, Huari's business growth and development in these cities are particularly encouraging. However, sales by the Group declined remarkably during August and September in cities such as Beijing and Shanghai. In view of its direct sale shops mainly located in "first-tier" cities and the impact of the prevailing global financial turmoil, the Group switched its focus to the indirect retail business, and is considering to contract out the operation activities of its direct sale shops.

With respect to the regional expansion of new markets, the Group will gain access through its franchising network to numerous "second – and third-tier" cities with robust potential purchasing power but not yet covered by the network to create demands and expand its mid-to-high-end solid wood furniture sector.

Generally speaking, given the particularity, high threshold and enormous space for market expansion of the mid-to-high-end solid wood furniture sector in the PRC as well as the leading edge in terms of the style design, brand reputation, product quality and retail network of Huari solid wood furniture, the Group was still able to maintain stability under such a tough environment from January to September.



Total turnover amounted to HK\$347,820,000 during the three quarters of the year from January to September, representing an increase of 17% over the corresponding period last year.

The Group focuses on the Chinese domestic retail market, with approximately 97% of the turnover derived from the PRC retail-related businesses, of which the franchising business accounts for approximately 75% and the self-owned shop business takes up approximately 15%.

During the first three quarters of the year, total gross profit was HK\$112,247,000, representing a gross profit margin of 32%; net profit was HK\$71,264,000, representing a net profit ratio of 20%.

The Group increased the expenses on marketing and management so as to build up its brand image, which in turn serve to enhance its competitive edge and strengthen its leading position in the market, and therefore the net profit ratio from January to September dropped 5% as compared with the corresponding period last year.

### **Franchised Retail Shop Business**

With a well-established and stable franchising system under this existing model, the Group enjoys the autonomy in the direct control over the end-user retail market so as to fully utilize and capitalize on the advantages of franchisees in different regions.

Turnover of the Group's PRC franchising business for the Huari solid wood furniture segment amounted to HK\$259,990,000 from January to September, representing an increase of approximately 3% over the corresponding period last year.

The regional expansion of new markets in future has to rely upon new local franchisees. It is because only through our well-established franchising model that the Group can actually capitalize on the advantages of these local franchisees while minimizing the need for management from the Group's marketing headquarters, thus facilitating the Group to leverage on business opportunities for opening up new markets more rapidly and securely.



As a result of the success of the Huari franchising model, the Jixiangniao (Lucky Bird) fabric furniture business, acquired early this year, was introduced into the Group to target at the young people's market. The major business model of Jixiangniao (Lucky Bird) is that:

1. The retail pricing is determined by the Group's marketing headquarters;
2. Franchised shops must sell only the products carrying the Group's brands;
3. The discount policy, boost sales campaigns, promotion, nationwide advertising and other matters for all franchised shops are directly and exclusively managed by the Group's marketing headquarters; and
4. Fitting-out works, furnishing, layout, staff training and other matters in respect of franchised shops must be carried out in strict compliance with the rules of the Group's marketing headquarters.

Upon completion of re-modifications to the retail network in the first quarter, turnover of Jixiangniao (Lucky Bird) increased from HK\$8,510,000 in the second quarter to HK\$9,710,000 in the third quarter. Although the Jixiangniao (Lucky Bird) fabric furniture business targeted at young people accounts for only around 7% of the Group's overall businesses, it plays a vital role for the Huari mid-to-high-end solid wood furniture segment in the initial exploration of access to the young people's market in future.

### **Self-owned Direct Sale Shop Business**

In August and September, the traffic control imposed during the Olympic Games events held in Beijing and Hebei regions, and the weakened desire of the Mainland residents for purchasing furniture due to their passion for the Olympic Games, compounded by the impact of the PRC's macro economic control initiatives and the global financial turmoil, though the overall direct sales business recorded an approximately HK\$11,150,000 net profit, some direct sale businesses recorded losses. This has forced the Group to shrink its management scope of direct sale shops from the fourth quarter and to focus its human and financial resources on internal management by planning to contract out the operation activities of direct sale shops to its existing teams in the future in order to mitigate operation risks. The Group will step up the development of the franchised retail shop business which has a relatively low risk.



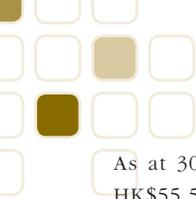
In view of considerable uncertainties about the global economy, the Group has temporarily shelved its plans to open or defer the construction of two to three flagship shops in the second half of the year and to increase the total number of flagship shops to nine by the end of 2009 until the global economy recovers. Other than the flagship shop opened in Zhengzhou, the Group originally plans to open another flagship shop in the fourth quarter. The target cities are Taiyuan, the capital city of Shanxi Province or Xi'an, the capital city of Shaanxi Province. Shop opening may, however, be postponed to 2009 since the Group will need to deploy more resources to the internal and future capital reserves.

The flagship stores in future will operate based on the model of the Zhengzhou flagship store, which includes primarily the following features:

1. Focus will be placed on “second- and third-tier provincial cities” where the local Huari franchised shops have already secured a stable consumer base and the Huari brand awareness has reached a considerable extent;
2. Flagship stores will occupy an area of approximately 5,000 to 7,000 square meters that can accommodate in total the display of the Group’s eight major series, which include the Group’s top six Huari solid wood furniture series, Jixiangniao (Lucky Bird) fabric furniture series and single household article series. New series to be launched in future or new items of these eight major series will be included as well;
3. Local franchisees introduce existing franchised shops and local resources into flagship stores for formally carrying out an overall integration of the retail network in that region; and
4. Franchisees and flagship stores will act as regional control centers of the Group’s marketing headquarters for organizing and coordinating unified marketing activities by all the franchised shops in the province so that the costs of marketing and management can be substantially reduced, management efficiency enhanced and day-to-day contact with and monitoring by the Group’s marketing headquarters minimized.

## 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 30 September 2008, cash and bank balances of the Group was approximately HK\$55,563,000.

Total borrowing of the Group as at 30 September 2008 amounted to approximately HK\$65,000 (as at 30 September 2007: approximately HK\$81,000), representing obligation under a finance lease contract with an interest rate of approximately 5% per annum and average lease term of approximately five years.

## Employees Information

As at 30 September 2008, the Group had employed 6 staffs in Hong Kong and 626 staffs in PRC (as at 30 September 2007: 5 staffs in Hong Kong and 191 staffs in PRC), they were remunerated in accordance with their performance and market condition. Other benefits available to eligible employees include retirement benefits and medical insurance schemes. Total staff costs for the nine months ended 30 September 2008 amounted to approximately HK\$18,130,000 (2007: approximately HK\$3,427,000).

The Group did not experience any significant labour disputes or substantial change in the number of its employees that led to any disruption of normal business operations. The Directors consider the Group's relationship with its employees to be good.

In addition, for the nine months ended 30 September 2008, the Group hired an average monthly number of 1,794 workers through the labour service contracts signed by Langfang Huari Hengyu Home Co., Ltd\* (廊坊華日恒宇家居有限公司) ("Langfang Hengyu") with Lang Fang Huari Furniture Joint Stock Co. Ltd. (2007: The average monthly number of workers hired by Langfang Hengyu and Langfang Tianfeng Home Co. Ltd.\* (廊坊天豐家居有限公司) ("Langfang Tianfeng") were 1,542 and 69 respectively). The monthly labour service payment to be made by the Group is calculated on the basis of 6.5% over the value of the finished goods warehoused each month. For the nine months ended 30 September 2008, the average monthly labour service payment made by Langfang Hengyu was approximately RMB1,953,000. The workers hired through the labour service contracts did not enjoy the benefits available to the eligible employees of the Group (2007: The average monthly labour service payment made by Langfang Hengyu and Langfang Tianfeng was approximately HK\$1,553,000 and approximately HK\$85,000 respectively).

## GEARING RATIO

As at 30 September 2008, the Group's gearing ratio was 8.2% representing a percentage of long term liabilities over total assets (as at 30 September 2007: approximately 0.022%).



## **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 2008, 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 2008, 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 2008, 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 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 30 September 2008, 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 2008, 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 (Note 1)
<b>Substantial Shareholders</b>			
True Allied Assets Limited	Beneficial owner	351,518,000	29.22%
Ms. HUANG Ye-hua (Note 2)	Interest of controlled corporation	351,518,000	29.22%
<b>Other Shareholders</b>			
Mr. Zhou Xu En (Note 3)	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 3)	Beneficial owner	106,318,182	8.83%
Ms. Xiu Jun Cheng (Note 3)	Interest of controlled corporation	106,318,182	8.83%
Mr. Zhou Tian Tang (Note 3)	Interest of controlled corporation	106,318,182	8.83%
Arisaig Greater China Fund Limited (Note 4)	Beneficial owner	120,420,000	10.01%
Arisaig Partners (Mauritius) Limited (Note 4)	Investment manager	120,420,000	10.01%
Cooper Lindsay William Ernest (Note 4)	Interest of controlled corporation	120,420,000	10.01%
Citigroup Inc.	Interest of controlled corporation	73,500,000	6.11%
Deutsche Bank Aktiengesellschaft	Beneficial owner	70,456,000	5.86%
	Person having a security interest in shares	1,712,000	0.14%
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%
Fair China Focus Fund Limited	Beneficial owner	60,776,000	5.05%
Fair Investment Management Limited (Note 6)	Interest of controlled corporation	60,776,000	5.05%
Mr. Lau Tak Chuen, Airy (Note 7)	Interest of controlled corporation	60,776,000	5.05%



*Note:*

- (1) The percentage is calculated by dividing the number of shares interested or deemed to be interested by the existing 1,202,799,970 issued shares as at 30 September 2008.
- (2) Ms. HUANG Ye-hua is interested by virtue of her 100% beneficial interest in True Allied Assets Limited.
- (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 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.
- (4) 120,420,000 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 120,420,000 Shares through its controlled corporation.
- (5) Mr. Zhao Jianguo is interested by virtue of his 100% beneficial interest in Sino Hope Investments Limited.
- (6) Fair Investment Management Limited is interested by virtue of its 100% beneficial interest in Fair China Focus Fund Limited.
- (7) Mr. Lau Tak Chuen Airy is interested by virtue of his 100% beneficial interest in Fair Investment Management Limited.

Save as disclosed above, as at 30 September 2008, 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.



## LETTERS OF INTENT

On 7 January 2008, the Group has entered into letters of intent with Mr. Zhou Xu En, Mr. Xiu Xianliu, Mr. Cheng Pishuang, Mr. Pan Yongsheng, Mr. Wu Kemin, Mr. Pan Juncheng, Mr. Yang Yukai, Mr. Ren Kewei, Mr. Liu Qianji, Mr. Liu Lianghou and Mr. Liu Xiaodong respectively for the proposed acquisition of the furniture retail business of a total of 92 furniture retail shops owned and/or operated by the abovementioned persons in the PRC which are distributing furniture products of Huari brand. The letters of intent set out the basic understanding between the parties of the proposed acquisition. The proposed consideration is to be determined with reference to the audited net profits for the year ending 31 December 2008 of the relevant target business, multiplied by a certain price-to-earnings ratio ranging from 4 to 6 times with a cap set on the proposed consideration of each target business. For further details, please refer to the Company's announcement dated 8 January 2008.

## ACQUISITION OF CERTAIN FURNITURE RETAIL BUSINESS

### ***Furniture Retail Business of Mr. Xiu Xianliu***

On 18 February 2008, the Group and Mr. Xiu Xianliu entered into an acquisition agreement, pursuant to which the Group conditionally agreed to acquire certain furniture retail business at a consideration equal to the audited net profits of the furniture retail business for the year ending 31 March 2009 multiplied by 3 to 4 times. However, the consideration will not exceed RMB48,000,000 in any event.

The acquisition constitutes a discloseable transaction under the GEM Listing Rules. For further details, please refer to the Company's announcement dated 19 February 2008 and circular dated 7 March 2008 respectively.

### ***Furniture Retail Business of Mr. Zhou Xu En***

On 6 June 2008, the Group and Mr. Zhou Xu En entered into an acquisition agreement, pursuant to which the Group conditionally agreed to acquire certain furniture retail business at a consideration equal to the audited net profits of the furniture retail business for the year ending 31 March 2009 multiplied by 3 to 5 times. However, the consideration will not exceed RMB35,000,000 in any event.

The acquisition constitutes a discloseable transaction under the GEM Listing Rules. For further details, please refer to the Company's announcement dated 6 June 2008 and circular dated 23 June 2008 respectively.



## **ACQUISITION OF TRADEMARKS**

On 20 June 2008, the Group and Huari Furniture entered into a trademarks transfer agreement, pursuant to which the Group conditionally agreed to acquire (i) a trademark under the process of application with the PRC Trademarks Bureau made by Huari Furniture pending the approval of the PRC Trademarks Bureau; and (ii) 9 trademarks registered with the PRC Trademarks Bureau by Huari Furniture at a consideration equal to 10% of the audited net profit before tax of Langfang Hengyu for the year ending 31 December 2013 minus the balance of the prepaid fees as at 30 June 2008 in the amount of RMB6,440,000 paid by Langfang Tianfeng and Langfang Hengyu under the trademark licence contracts made between Huari Furniture and Langfang Hengyu and Langfang Tianfeng respectively. However, the consideration will not exceed RMB93,560,000 in any event.

So far as permitted by the applicable laws and regulations, the Group shall pay the consideration by way of allotment and issue of fully paid new Shares to Huari Furniture or its nominee on or before 31 December 2014. The number of Consideration Shares (assuming no subdivision or consolidation of Shares will take place from 26 June 2008 to the date of allotment of the consideration shares) will not exceed 106,318,182 Shares.

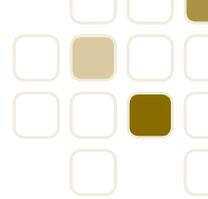
The acquisition constitutes a discloseable transaction under the GEM Listing Rules. For further details, please refer to the Company's announcement and circular dated 26 June 2008 and 16 July 2008 respectively.

## **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 2008.(2007: 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 2008, no related hedges were made by the Group.



## **CONTINGENT LIABILITIES**

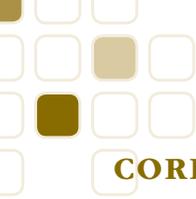
In September 2008, the Company has received a claim from its financial advisor for a fee in the amount of approximately HK\$14,342,000 in respect of the Company's proposed fund raising activities ("Claim"), which is disputed and not admitted by the Company. With a view to save costs and time, the directors of the Company ("Directors") are now negotiating for an amicable settlement of the Claim. Before the Directors concurred to the Claim to be recognized as a liability in the financial statements of the Company as at 30 September 2008, the Directors suggested that such amount of the claim is only disclosed as contingent liability of the Company as at 30 September 2008.

Save as disclosed above, the Group and the Company had no other 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 2008, 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 announcements and reports for the nine months ended 30 September 2008 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.



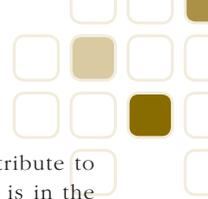
## CORPORATE GOVERNANCE PRACTICES

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 of the Company.

Save as disclosed above, for the nine months ended 30 September 2008, the Company complied with the code provisions of the CG Code.

## **SHARE OPTION SCHEME**

For the nine months ended 30 September 2008, no option had been granted, exercised, cancelled or lapsed under the share option scheme adopted by the shareholders of the Company on 24 May 2002 ("Share Option Scheme"). As at 30 September 2008, no outstanding option has been granted under the Share Option Scheme.

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

For the nine months ended 30 September 2008, 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 2008.

## RE-ELECTION OF DIRECTORS

At the annual general meeting of the Company held on 30 April 2008, all the incumbent Directors were re-elected as Directors by the shareholders of the Company.

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

Hong Kong, 10 November 2008

*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.*

*\* for identification purpose only*