
IMPORTANT

If you are in any doubt as to any aspect of this circular or as to the action to be taken, you should consult a stockbroker or other registered dealer in securities, bank manager, solicitor, professional accountant or other professional adviser.

If you have sold or transferred all your shares in **FAVA International Holdings Limited** (the “Company”), you should at once hand this circular to the purchaser or transferee or to the bank, stockbroker or other agent through whom the sale or transfer was effected for transmission to the purchaser or transferee.

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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)

DISCLOSEABLE AND CONNECTED TRANSACTION IN RESPECT OF THE ACQUISITION OF MANUFACTURING AND WHOLESALE BUSINESS OF JIXIANGNIAO FURNITURE FACTORY

Financial Adviser



Guotai Junan Capital Limited

Independent Financial Adviser to the Independent Board Committee



博大資本國際有限公司

Partners Capital International Limited

This circular will remain on the GEM website at <http://www.hkgem.com> on the “Latest Company Announcements” pages for at least seven (7) days from the date of its posting.

The letter from the Board is set out on pages 6 to 16 of this circular and the letter from the Independent Financial Adviser is set out on pages 18 to 34 of this circular.

A notice convening the SGM to be held at Room 1005, C.C. Wu Building, 302-8 Hennessy Road, Wanchai, Hong Kong on 30 November 2007, at 11:00 a.m. is set out on pages 41 to 42 of this circular. Whether or not you are able to attend the SGM, you are requested to complete the enclosed form of proxy in accordance with the instructions printed thereon and return it to the Company’s Hong Kong branch share registrar, Tricor Tengis Limited, at 26/F, Tesbury Centre, 28 Queen’s Road East, Wanchai, Hong Kong as soon as possible and in any event not less than 48 hours before the time appointed for holding the SGM or any adjournment thereof. Completion and return of the form of proxy will not preclude you from attending and voting in person at the SGM or any adjournment thereof if you so wish.

12 November 2007

CHARACTERISTICS OF THE GROWTH ENTERPRISE MARKET OF THE STOCK EXCHANGE OF HONG KONG LIMITED

GEM has been established as a market designed to accommodate companies to which a high investment risk may be attached. In particular, companies may list on GEM with neither a track record of profitability nor any obligation to forecast future profitability. Furthermore, there may be risks arising out of the emerging nature of companies listed on GEM and the business sectors or countries in which the companies operate. 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.

The principal means of information dissemination on GEM is publication on the internet website operated by the Stock Exchange. Listed companies are not generally required to issue paid announcements in gazetted newspapers. Accordingly, prospective investors should note that they need to have access to the GEM website in order to obtain up-to-date information on GEM-listed issuers.

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DEFINITIONS

In this circular, unless the context otherwise requires, the following expressions shall have the following meanings:

- “Acquisition” the acquisition of the Target Business under the Acquisition Agreement
- “Acquisition Agreement” the conditional acquisition agreement dated 19 October 2007 entered into between Langfang Hengyu, Jixiangniao Furniture Factory and Mr. Liu in respect of the Acquisition
- “associates” has the meaning ascribed to this term under the GEM Listing Rules
- “Board” the board of Directors
- “Business Day(s)” any day (excluding a Saturday and Sunday) on which banks generally are open for business in the PRC
- “Company” FAVA International Holdings Limited, a company incorporated in Bermuda with limited liability, the Shares of which are listed on the GEM
- “connected person(s)” has the meaning as defined in the GEM Listing Rules
- “Consideration” the aggregate amount of the consideration of the Acquisition which comprises of the following two components:
- (1) the appraisal value of RMB4,520,000 of the Trademark as at 30 September 2007 and the appraisal value of RMB306,112.53 of the Target Business (excluding the inventory and the Trademark) as at 15 October 2007 as appraised by Beijing Zhong Tai Hua Heng Assets Valuation Company Limited* (北京中泰華恒資產評估有限公司), an independent qualified PRC valuer as stated in its relevant valuation report and the value of the inventory as at the Stock Valuation Date; and
 - (2) an amount calculated by reference to the audited net profit of the Target Business for the year ending 31 December 2008 and in accordance with the following formula:

$$A \times B - C$$

whereas,

A = the audited net profit of the Target Business for the year ending 31 December 2008

B = price-to-earnings ratio

DEFINITIONS

C = the value or the appraisal value of the Target Business as referred to in component (1) above

(a) if A is between RMB10 million (inclusive) and RMB12 million (inclusive), then B is 6;

(b) if A is less than RMB10 million but more than or equals to RMB8 million, then B is 5;

(c) if A is less than RMB8 million but more than or equals RMB6 million, then B is 4;

(d) if A is less than RMB6 million, then B is zero, that means component (1) above is the total consideration of the Acquisition;

(e) if A exceeds RMB12 million (for the purpose of this paragraph (e), A is capped at RMB15 million), then component (2) of the consideration of the Acquisition shall be calculated as follows:

$$\text{RMB12 million} \times B + (\text{A} - \text{RMB12 million}) \times 50\% - C$$

whereas,

$$B = 6$$

C = the value or the appraisal value of the Target Business as referred to in component (1) above

“Director(s)”

the director(s) of the Company

“First Announcement”

the announcement of the Company dated 18 September 2007 in relation to, inter alia, the letter of intent entered into between Langfang Hengyu and Mr. Liu setting out the basic understanding between the parties thereto in connection with the Acquisition

DEFINITIONS

“First Completion”	all the applicable conditions precedent are either satisfied or waived by Langfang Hengyu
“First Completion Date”	the fifth Business Day after all the applicable conditions precedent are either satisfied or waived by Langfang Hengyu (or such later date as may be mutually agreed between Langfang Hengyu and Jixiangniao Furniture Factory in writing), which is also the date of transfer of the title of the Target Business (excluding the Trademark)
“GEM”	The Growth Enterprise Market of the Stock Exchange
“GEM Listing Rules”	the Rules Governing the Listing of Securities on GEM
“Group”	the Company and its subsidiaries
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“HK\$”	Hong Kong dollar, the lawful currency of Hong Kong
“Independent Board Committee”	a committee of the Board established for the purpose of providing the advices on the Acquisition to the Independent Shareholders comprising independent non-executive Directors who are independent of this transaction
“Independent Financial Adviser” or “Partners Capital”	Partners Capital International Limited, a corporation licensed to carry on Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities under the SFO
“Independent Shareholders”	the Shareholders who are not connected to True Allied Assets Limited and are not required to abstain from voting at the SGM
“Independent Third Parties”	parties which are independent of and not connected with any of the directors, chief executives, substantial shareholders or management shareholders of the Company or any of its subsidiaries or any of their respective associates (as defined in the GEM Listing Rules)
“Jixiangniao Furniture Factory”	Langfang Development Zone Yunpeng Road Jixiangniao Furniture Factory* (廊坊開發區雲鵬道吉祥鳥家具廠), a factory established in the PRC which engages in the business of manufacturing and wholesaling of sofa, tea tables and living room furniture

DEFINITIONS

“Langfang Hengyu”	Langfang Huari Hengyu Home Co., Ltd* (廊坊華日恒宇家居有限公司), a company incorporated in the PRC and is an indirect wholly-owned subsidiary of the Company
“Latest Practicable Date”	9 November 2007, being the latest practicable date prior to the printing of this circular, and for the purpose of ascertaining certain information in this circular
“Mr. Liu”	Mr. Liu Qian Jin (柳前進先生), the owner and operator of Jixiangniao Furniture Factory and is the spouse of Ms. Huang Ye Hua
“PRC”	the People’s Republic of China, which for the purpose of this announcement, excludes Hong Kong, Macau Special Administrative Region and Taiwan
“RMB”	Renminbi, the lawful currency of the PRC
“Second Announcement”	the announcement of the Company dated 22 October 2007 in relation to, inter alia, the discloseable and connected transaction of the Acquisition
“Second Completion”	the transfer of title of the Trademark to Langfang Hengyu being completed and the registration certificate of the Trademark in the name of Langfang Hengyu issued by the relevant PRC government authority being obtained
“Second Completion Date”	the date on which the title of the Trademark shall be transferred to Langfang Hengyu
“SFO”	Securities and Future Ordinance, Chapter 571 of the Laws of Hong Kong (as amended and supplemented from time to time)
“SGM”	the special general meeting of the Company to be convened to consider and approve the matters in relation to the Acquisition
“Share(s)”	ordinary share(s) of HK\$0.002 each in the share capital of the Company
“Shareholder(s)” or “Member(s)”	holder(s) of the Shares
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Stock Valuation Date”	31 December 2007

DEFINITIONS

“Target Business”	the business to be acquired under the Acquisition Agreement including (i) the Trademark; (ii) the business of manufacturing and wholesaling of sofa, tea tables and living room furniture and the relevant operating assets of Jixiangniao Furniture Factory (including but not limited to all the contracts, agreements or undertakings in relation to the aforesaid business and assets signed with any Independent Third Parties and all the rights and benefits derived therefrom) but excluding any debts and liabilities; and (iii) the inventory level as at the Stock Valuation Date
“Trademark”	the trademark of “吉翔鳥JIXIANGNIAO”
“%”	per cent

For the purpose of this circular, translations of RMB into Hong Kong dollars is made for illustration purposes only at the exchange rate of HK\$1 to RMB1.

** For identification purposes only*

LETTER FROM THE BOARD

FAVA INTERNATIONAL HOLDINGS LIMITED

名家國際控股有限公司*

(Incorporated in Bermuda with limited liability)

(Stock Code: 8108)

Executive Directors:

Mr. Li Ge

Mr. Zhao Guo Wei

Independent non-executive Directors:

Mr. Lee Yuen Kwong

Mr. Yang Jie

Mr. Yang Dongli

Registered Office:

Clarendon House

2 Church Street

Hamilton HM 11

Bermuda

Principal Place of Business

in Hong Kong:

Room 1005

C.C. Wu Building

302-8 Hennessy Road

Wanchai

Hong Kong

12 November 2007

To Shareholders:

Dear Sir/Madam,

**DISCLOSEABLE AND CONNECTED TRANSACTION
IN RESPECT OF
THE ACQUISITION OF MANUFACTURING AND
WHOLESALE BUSINESS OF JIXIANGNIAO FURNITURE FACTORY**

INTRODUCTION

Reference is made to the First Announcement and Second Announcement. The Board is pleased to announce that, on 19 October 2007, Langfang Hengyu, Jixiangniao Furniture Factory and Mr. Liu entered into the Acquisition Agreement, pursuant to which Langfang Hengyu conditionally agreed to acquire and Jixiangniao Furniture Factory conditionally agreed to sell, the Target Business at a consideration, in any event, which the maximum amount of Consideration payable shall not exceed RMB73.5 million (being RMB12 million x 6 + (RMB15 million – RMB12 million) x 50%).

The Directors (including the independent non-executive Directors) consider that the terms and conditions of the Acquisition are fair and reasonable and in the interests of the Shareholders as a whole.

* For identification purposes only

LETTER FROM THE BOARD

Mr. Liu is the owner and operator of Jixiangniao Furniture Factory and is the spouse of Ms. Huang Ye Hua. Ms. Huang Ye Hua is the sole shareholder of True Allied Assets Limited, which is a substantial shareholder of the Company. As such, Mr. Liu is regarded as a connected person of the Company and the Acquisition will constitute a connected transaction under the provisions of Chapter 20 of the GEM Listing Rules. As the relevant percentage ratios pursuant to the GEM Listing Rules applicable to the Acquisition exceeds 5% but below 25%, the Acquisition also constitutes a discloseable transaction for the Company under the provisions of Chapter 19 of the GEM Listing Rules.

According to the provision set out in the GEM Listing Rules, the Acquisition is subject to, inter alia, the Independent Shareholders' approval. As Mr. Liu, who is interested in the Acquisition, is the spouse of Ms. Huang Ye Hua, Ms. Huang Ye Hua and her associates will abstain from voting in respect of the resolution approving the Acquisition at the SGM.

The purpose of this circular is to provide you, among other things, (1) further information on the Acquisition; (2) the recommendations of the Independent Board Committee; (3) the advices of the Independent Financial Adviser to the Independent Board Committee and Independent Shareholders; and (4) the notice of SGM.

ACQUISITION AGREEMENT

Date: 19 October 2007

Parties: Purchaser: Langfang Hengyu

Vendor: Jixiangniao Furniture Factory, which is 100% owned by Mr. Liu

Warrantor: Mr. Liu

Business to be acquired: Pursuant to the Acquisition Agreement, Langfang Hengyu conditionally agreed to acquire the Target Business from the Jixiangniao Furniture Factory.

Consideration

Langfang Hengyu, Jixiangniao Furniture Factory and Mr. Liu entered into the Acquisition Agreement, pursuant to which Langfang Hengyu conditionally agreed to acquire and Jixiangniao Furniture Factory conditionally agreed to sell, the Target Business at a consideration which is divided into the following two components:

LETTER FROM THE BOARD

- (1) the appraisal value of RMB4,520,000 of the Trademark as at 30 September 2007 and the appraisal value of RMB306,112.53 of the Target Business (excluding the inventory and the Trademark) as at 15 October 2007 as appraised by Beijing Zhong Tai Hua Heng Assets Valuation Company Limited* (北京中泰華恒資產評估有限公司), an independent qualified PRC valuer as stated in its valuation report and the value of the inventory as at the Stock Valuation Date; and
- (2) an amount calculated by reference to the audited net profit of the Target Business for the year ending 31 December 2008 and in accordance with the following formula:

A x B – C

whereas,

A = the audited net profit of the Target Business for the year ending 31 December 2008

B = price-to-earnings ratio

C = the value or the appraisal value of the Target Business as referred to in component (1) above

- (a) if A is between RMB10 million (inclusive) and RMB12 million (inclusive), then B is 6;
- (b) if A is less than RMB10 million but more than or equals to RMB8 million, then B is 5;
- (c) if A is less than RMB8 million but more than or equals RMB6 million, then B is 4;
- (d) if A is less than RMB6 million, then B is zero, that means component (1) above is the total consideration of the Acquisition;
- (e) if A exceeds RMB12 million (for the purpose of this paragraph (e), A is capped at RMB15 million), then component (2) of the consideration of the Acquisition shall be calculated as follows:

LETTER FROM THE BOARD

RMB12 million x B + (A – RMB12 million) x 50% – C

whereas,

B = 6

C = the value or the appraisal value of the Target Business as referred to in component (1) above

In any event, the maximum amount of Consideration payable shall not exceed RMB73.5 million (being RMB12 million x 6 + (RMB15 million – RMB12 million) x 50%).

Basis of Consideration

The Consideration under the Acquisition Agreement is determined after arm's length negotiation between Langfang Hengyu and Jixiangniao Furniture Factory on normal commercial terms with reference to the audited net profit to be generated from the Target Business for the year ending 31 December 2008, multiplied by a price-to-earnings ratio which is determined with reference to the price-to-earnings ratio of companies listed in Hong Kong which are engaged in similar business with the Company.

The Directors (including the independent non-executive Directors) consider that the basis of the Consideration is fair and reasonable and is in the interests of the Shareholders as a whole.

Payment of Consideration

The Consideration shall be satisfied by Langfang Hengyu in the following manners:

- (a) the value of the Target Business (as referred to in component (1) of the Consideration above) shall be payable in RMB cash on the First Completion Date;
- (b) the remaining balance of the Consideration (as referred to in component (2) above) shall be payable in RMB cash by the following installments:
 - (i) 30% on the Second Completion Date or 30 April 2009, whichever is the later;
 - (ii) 30% on either the date 12 months after the Second Completion Date or 30 April 2010, whichever is the later; and
 - (iii) 40% on either the date 24 months after the Second Completion Date or 30 April 2011, whichever is the later.

The Group intends to use its internal resources and/or bank borrowings (if necessary) to satisfy the consideration of the Acquisition.

LETTER FROM THE BOARD

Conditions Precedent

First Completion and Second Completion of the Acquisition are conditional on the fulfillment of the conditions precedent set out below:

- (a) all the title documents and records of the Target Business have been provided by Jixiangniao Furniture Factory to Langfang Hengyu and the results of the review on all these documents and records are being found satisfactory by Langfang Hengyu in the form of written notification to Jixiangniao Furniture Factory;
- (b) stock take of inventory in relation to the Target Business as at the Stock Valuation Date has been finished by Jixiangniao Furniture Factory and the result is found satisfactory by Langfang Hengyu;
- (c) all the approvals and consents (if any) (i) in respect of the Target Business excluding the Trademark (for First Completion); and (ii) in respect of the Trademark (for Second Completion) to ensure Langfang Hengyu will become the legal and beneficial owner of the Target Business have been obtained;
- (d) the Non-competition Undertaking has been executed by Jixiangniao Furniture Factory and Mr. Liu in favor of Langfang Hengyu;
- (e) the receipt by Langfang Hengyu of a PRC legal opinion in relation to the legality of the title of the Target Business and the transfer of title in a form acceptable to Langfang Hengyu;
- (f) the Independent Shareholders' approval at the SGM regarding the Acquisition Agreement and the transaction contemplated thereunder has been obtained; and
- (g) any other documents which are requested by Langfang Hengyu.

Termination of the Acquisition Agreement

The Acquisition Agreement will be terminated upon the occurrence of any of the following matters:

- (a) all the conditions precedent above are not either satisfied or waived by Langfang Hengyu (except for the conditions precedent (d) and (f)) on or before 21 January 2008;
- (b) the mutual agreement between Langfang Hengyu, Jixiangniao Furniture Factory and Mr. Liu;
- (c) in the event that one party breaches any provision in the Acquisition Agreement, other parties may deliver a written notice to the defaulting party to request for remedy or ratification of such breach or may terminate the Acquisition Agreement immediately.

LETTER FROM THE BOARD

Completion

The First Completion of the Acquisition is expected to take place when all the applicable conditions precedent set out in the section headed “Conditions Precedent” are either satisfied or waived by Langfang Hengyu (except for the conditions precedent (d) and (f)). The Second Completion of the Acquisition is expected to take place when the transfer of title of the Trademark to Langfang Hengyu is completed and the registration certificate of the Trademark in the name of Langfang Hengyu, issued by the relevant PRC government authority is obtained.

Mr. Liu has agreed and undertaken to Langfang Hengyu that, subsequent to the First Completion, Mr. Liu will continue or procure Jixiangniao Furniture Factory to continue to assist in the operation and management of the Target Business during the period as requested by Langfang Hengyu. In consideration of the above, Langfang Hengyu has agreed to the following arrangement:

- (a) if the audited net profit of the Target Business for the year ending 31 December 2009 exceeds the figure for the year ending 31 December 2008 multiplied by 125%, then Langfang Hengyu shall pay Jixiangniao Furniture Factory an extra amount equivalent to 50% of the difference between the two figures as performance bonus; on the other hand, if the audited net profit of the Target Business for the year ending 31 December 2009 is less than the figure for the year ending 31 December 2008 multiplied by 125%, then any such difference shall be deducted as penalty imposed from the payment installment referred to in paragraph (b)(ii) under the section “Payment of Consideration” in this circular; and
- (b) if the audited net profit of the Target Business for the year ending 31 December 2010 exceeds the figure for the year ending 31 December 2009 multiplied by 125%, then Langfang Hengyu shall pay Jixiangniao Furniture Factory an extra amount equivalent to 50% of the difference between the two figures as performance bonus; on the other hand, if the audited net profit of the Target Business for the year ending 31 December 2010 is less than the figure for the year 2009 multiplied by 125%, then any such difference shall be deducted as penalty imposed from the payment installment referred to in paragraph (b)(iii) under the section “Payment of Consideration” in this circular.

The amount of penalty as described in (a) and (b) above shall not be subject to any cap, but in any case, the payment installment referred to in paragraph (b)(ii) and (b)(iii) under the section “Payment of Consideration” in this circular shall not be less than zero.

TRANSFER OF OWNERSHIP OF THE TARGET BUSINESS

Jixiangniao Furniture Factory have agreed that Langfang Hengyu will be entitled to the ownership and all benefits and rights associated with (i) the Target Business excluding the Trademark from the First Completion Date; and (ii) the Trademark from the Second Completion Date.

LETTER FROM THE BOARD

Jixiangniao Furniture Factory will complete or assist Langfang Hengyu to complete all the necessary filing or registration of the transfer of title of the Target Business in accordance with relevant PRC laws and regulations within 30 Business Days after the relevant completion, or any other statutory timeframe (if such statutory timeframe is shorter than 30 Business Days). Jixiangniao Furniture Factory will further complete or assist Langfang Hengyu to complete all the transfer of the rights and benefits of Jixiangniao Furniture Factory in the contracts, agreements or undertakings in relation to the Target Business to Langfang Hengyu within 30 Business Days after the relevant completion. In the event that the registration process has to be extended, written consent will be obtained from Langfang Hengyu. All registration fees in connection with the transfer of title will be jointly borne by Langfang Hengyu and Jixiangniao Furniture Factory in accordance with the relevant PRC law and regulations.

NON-COMPETITION UNDERTAKING BY MR. LIU AND JIXIANGNIAO FURNITURE FACTORY

Jixiangniao Furniture Factory and Mr. Liu have jointly and severally undertaken to Langfang Hengyu that, for a period of five years or until the date on which Mr. Liu and/or his associates (as defined under the GEM Listing Rules) will not hold any Share, whichever is the later, from the date of the signing of a non-competition undertaking dated 19 October 2007 (the “Non-competition Undertaking”):

- (a) (i) Jixiangniao Furniture Factory and Mr. Liu will not, in the PRC, directly or indirectly, operate or participate in by any means of any business of manufacturing and wholesaling of sofa, tea tables and living room furniture or any business similar to or same as the furniture business currently carried on by Langfang Hengyu or the Target Business (the “Restricted Business”), or hold any equity interest in any company engaged in the Restricted Business, or (ii) being employed by any person, company or organization which directly or indirectly participates in the Restricted Business;
- (b) Jixiangniao Furniture Factory and Mr. Liu will not directly or indirectly, employ or procure employment of the directors, general managers or deputy general managers of Langfang Hengyu;
- (c) Jixiangniao Furniture Factory and Mr. Liu will not, by themselves or on behalf of any person, recruit or solicit any directors, general managers or managerial staffs of the Company to join any companies other than Langfang Hengyu, no matter whether such persons are in breach of their employment or service contracts due to their departure.

All the undertakings above applies to Jixiangniao Furniture Factory and Mr. Liu and any companies whose 50% or above of the equity interests are owned by Jixiangniao Furniture Factory or Mr. Liu; or companies who own 50% or above of the equity interests of Jixiangniao Furniture Factory; all the directors, general managers and deputy general managers of the aforesaid companies, or any individuals who owns 50% or above of the equity interests of any of the aforesaid companies. If any person or company aforementioned breaches the undertakings (a), (b) and (c) above, Jixiangniao Furniture Factory and Mr. Liu will be deemed to have breached the Non-competition Undertaking.

LETTER FROM THE BOARD

INFORMATION ABOUT JIXIANGNIAO FURNITURE FACTORY AND THE TARGET BUSINESS

Mr. Liu is the spouse of Ms. Huang Ye Hua. Ms. Huang Ye Hua is the sole shareholder of True Allied Assets Limited, a substantial shareholder of the Company holding 29.22% of the total existing issued share capital of the Company as at the Latest Practicable Date.

Based on the information provided by Mr. Liu, Jixiangniao Furniture Factory, whose owner and operator is Mr. Liu, is principally engaged in the business of manufacturing and wholesaling of sofa, tea tables and living room furniture.

The Target Business to be acquired under the Acquisition Agreement consists of (i) the Trademark; (ii) the business of manufacturing and wholesaling of sofa, tea tables and living room furniture and the relevant operating assets of Jixiangniao Furniture Factory (including but not limited to all the contracts, agreements or undertakings in relation to the aforesaid business and assets signed with any Independent Third Parties and all the rights and benefits derived therefrom) but excluding any debts and liabilities; and (iii) the inventory level as at the Stock Valuation Date. The original purchase cost of the Target Business (excluding the inventory) to the Jixiangniao Furniture Factory is RMB388,223.

Financial Information regarding the Target Business

Based on the unaudited financial information in respect of the Target Business from Jixiangniao Furniture Factory provided by the Company, which is prepared in accordance with the PRC accounting standards, the turnover and the net profit after tax and extraordinary items attributable to the Target Business for the two years ended 31 December 2006 are set out as below:

	Year ended 31 December 2005	Year ended 31 December 2006
	<i>RMB('000)</i>	<i>RMB('000)</i>
Turnover	24,839.0	28,567.8
Net profit	3,416.9	3,929.5

INFORMATION OF THE GROUP

The Group is principally engaged in the manufacture and sale of household products, focusing on home furniture in the PRC and overseas markets.

REASONS FOR AND BENEFITS OF THE ACQUISITION

As mentioned in the Company's latest interim report for the six months ended 30 June 2007, the Group aims to develop into a comprehensive enterprise providing a blend of production and retailing services.

LETTER FROM THE BOARD

The Directors are of the view that the Acquisition (i) will broaden the product variety of the Group; (ii) will enable the Group to expand its business into the sofa and tea tables sector of the furniture industry; and (iii) will further diversify the brands and sales network of the Company as a result of the expansion of the Group's production capacity, which is in line with the Group's business objective to provide comprehensive services on its production and retail operation.

The Directors (including the independent non-executive Directors) consider that the terms and conditions of the Acquisition are fair and reasonable and in the interests of the Shareholders as a whole.

FINANCIAL EFFECT OF THE ACQUISITION

Upon the First Completion and Second Completion of the Acquisition Agreement, the Company will own the Target Business. In the event that the Group uses its internal resources to satisfy the Consideration, the Directors consider that there will not have any effect of the net assets and liabilities of the Group. On the other hand, in the event that the Consideration is financed by bank borrowings, the assets and the liabilities of the Group will be enlarged to the same extent which shall not exceed RMB73.5 million. As the Target Business has been generating turnover and profit for the years ended 31 December 2005 and 2006, the Directors consider that the Target Business will enhance the revenue base of the Group.

RECOMMENDATION

The Directors (including the independent non-executive Directors) are of the view that the terms of the Acquisition are fair and reasonable and are in the interests of the Company and the Shareholders as a whole. Consequently, the Directors recommend the Shareholders to vote in favour of the resolution in relation to the Acquisition to be proposed at the SGM.

Your attention is drawn to the letter from the Independent Board Committee set out on page 17 of this circular containing the recommendation of the Independent Board Committee to the Independent Shareholders concerning the Acquisition which require, inter alia, the approval by the Independent Shareholders at the SGM.

The advice from the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders, on the fairness and reasonableness of the terms of the Acquisition are set out on pages 18 to 34 of this circular. The Independent Financial Adviser considers that the terms of the Acquisitions and the entering into of the Acquisition Agreement are fair and reasonable so far as the Independent Shareholders are concerned and are in the interests of the Company and the Shareholders as a whole.

The Independent Board Committee, having considered the advice from of the Independent Financial Adviser as set out on pages 18 to 34 of this circular, considers that the terms of the Acquisition and the entering into of the Acquisition Agreement are fair and reasonable and are in the interests of the Company and the Shareholders as a whole. Consequently, the Independent Board Committee recommends the Independent Shareholders to vote in favour of the proposed resolutions relating to the Acquisition at the SGM.

LETTER FROM THE BOARD

SGM

The SGM will be convened for the Shareholders to consider, and if thought fit, pass the resolution relating to approving the Acquisition. According to the provision set out in the GEM Listing Rules, the Acquisition is subject to, inter alia, the Independent Shareholders' approval. As Mr. Liu, who is interested in the Acquisition, is the spouse of Ms. Huang Ye Hua, Ms. Huang Ye Hua and her associates will abstain from voting in respect of the resolution approving the Acquisition, and votes will be taken by poll in respect of such resolution, at the SGM.

PROCEDURES FOR DEMANDING A POLL

Pursuant to Article 66 of the bye-laws of the Company, at any general meeting a resolution put to vote of a meeting shall be decided on a show of hands unless voting by way of a poll is required by the GEM Listing Rules or (before or on the declaration of the result of the show of hands or on the withdrawal of any other demand for a poll) a poll is demanded:

- (a) by the chairman of such meeting; or
- (b) by at least three Members present in person (or in the case of a Member being a corporation by its duly authorised representative) or by proxy for the time being entitled to vote at the meeting; or
- (c) by any Member or Members present in person (or in the case of a Member being a corporation by its duly authorised representative) or by proxy and representing not less than one-tenth of the total voting rights of all Members having the right to vote at the meeting; or
- (d) by any Member or Members present in person (or in the case of a Member being a corporation by its duly authorised representative) or by proxy and holding Shares in the Company conferring a right to vote at the meeting being Shares on which an aggregate sum has been paid up equal to not less than one-tenth of the total sum paid up on all Shares conferring the rights; or
- (e) if required by the GEM Listing Rules, by any Director or Directors who individually or collectively, hold proxies in respect of Shares representing five per cent. (5%) or more of the total voting rights of all Members having right to vote at such meeting.

A demand by a person as proxy for a Member or in the case of a Member being a corporation by its duly authorized representative shall be deemed to be the same as a demand by a Member.

LETTER FROM THE BOARD

GENERAL

Mr. Liu is the owner and operator of Jixiangniao Furniture Factory and the spouse of Ms. Huang Ye Hua. Ms. Huang Ye Hua is the sole shareholder of True Allied Assets Limited, which is a substantial shareholder of the Company. As such, Mr. Liu is regarded as a connected person of the Company and the Acquisition will constitute a connected transaction under the provisions of Chapter 20 of the GEM Listing Rules. As the relevant percentage ratios pursuant to the GEM Listing Rules applicable to the Acquisition exceeds 5% but below 25%, the Acquisition constitutes a discloseable transaction for the Company under the provisions of Chapter 19 of the GEM Listing Rules.

ADDITIONAL INFORMATION

Your attention is also drawn to the additional information set out in the appendix to this circular for other information of the Group.

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

FAVA INTERNATIONAL HOLDINGS LIMITED

名家國際控股有限公司*

(Incorporated in Bermuda with limited liability)

(Stock Code: 8108)

12 November 2007

To the Independent Shareholders

Dear Sir or Madam,

**DISCLOSEABLE AND CONNECTED TRANSACTION
IN RESPECT OF
THE ACQUISITION OF MANUFACTURING AND
WHOLESALE BUSINESS OF JIXIANGNIAO FURNITURE FACTORY**

We refer to this circular, of which this letter form part, setting out the information of the discloseable and connected transaction in relation to, inter alia, the Acquisition. Terms defined therein shall have the same meanings when used in this letter unless the context otherwise requires.

As appointed by the Board, we form the Independent Board Committee to provide you our recommendations as to whether, in our opinion, the Acquisition is in the interests of the Company and Shareholders as a whole and whether the terms of the Acquisition Agreement are fair and reasonable.

Partners Capital International Limited has also been appointed by the Company as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders regarding the terms of the Acquisition Agreement and the Acquisition. For the details of the advice together with the principal factors taken into consideration in arriving at such advice provided by the Independent Financial Adviser are set out in its letter on pages 18 to 34 of this circular.

Having considered the terms of the Acquisition Agreement and having considered the interests of the Independent Shareholders and the advice from the Independent Financial Adviser, we consider that the terms of the Acquisition Agreement are fair and reasonable and are in the interests of the Company and the Shareholders as a whole. Accordingly, we recommend that the Independent Shareholders to vote in favour of the resolutions approving the Acquisition Agreement, the Acquisition and the transaction contemplated under the Acquisition Agreement.

Independent Board Committee

Lee Yuen Kwong

Yang Dongli

Yang Jie

Independent Non-executive Directors

* *For identification purposes only*



博大資本國際有限公司
Partners Capital International Limited

Partners Capital International Limited
Unit 3906, 39/F, COSCO Tower
183 Queen's Road Central
Hong Kong

12 November 2007

*To the Independent Board Committee and
the Independent Shareholders*

Dear Sirs,

**DISCLOSEABLE AND CONNECTED TRANSACTION –
ACQUISITION OF MANUFACTURING AND WHOLESALING BUSINESS
OF JIXIANGNIAO FURNITURE FACTORY**

INTRODUCTION

We refer to our engagement to advise the Independent Board Committee and the Independent Shareholders in respect of the terms of the Acquisition Agreement, particulars of which are set out in a circular to the Shareholders dated 12 November 2007 (the “Circular”), in which this letter is reproduced. Unless the context requires otherwise, capitalised terms used in this letter shall have the same meanings as given to them under the definitions section of the Circular. Guotai Junan Capital Limited had been appointed as the financial advisers to the Company in respect of the Acquisition.

As set out in the letter from the Board (the “Letter from the Board”) contained in the Circular, Langfang Hengyu, Jixiangniao Furniture Factory and Mr. Liu entered into the Acquisition Agreement, pursuant to which Langfang Hengyu conditionally agreed to acquire from Jixiangniao Furniture Factory the Target Business. As Mr. Liu is the owner and operator of Jixiangniao Furniture Factory and is the spouse of Ms. Huang Ye Hua, who in turn is the sole shareholder of True Allied Assets Limited which is a substantial shareholder of the Company, Mr. Liu is regarded as a connected person of the Company. On such basis, and given that the relevant percentage ratios pursuant to the GEM Listing Rules applicable to the Acquisition exceeds 5% but below 25%, the Acquisition will constitute a discloseable and connected transaction under the provisions of Chapter 20 of the GEM Listing Rules and is subject to (amongst others) approval of the Independent Shareholders at the SGM by poll.

In formulating our opinion, we have relied on the accuracy of the information and representations contained in the Circular and have assumed that all information and representations made or referred to in the Circular were true at the time they were made and continue to be true as at the date of the Circular. We have also relied on our discussion with the management of the Company regarding the Group and the Acquisition Agreement, including the information and representations contained in the Circular. We have also assumed that all statements of belief, opinion and intention made by the Directors and the Company in the Circular were reasonably made after due enquiry. We have not, however, conducted an independent in-depth investigation into the business and affairs of the Group, the Target Business, the Trademark, Jixiangniao Furniture Factory and Mr. Liu and their respective associates nor have we carried out any independent verification of the information supplied.

LETTER FROM PARTNERS CAPITAL

PRINCIPAL FACTORS AND REASONS CONSIDERED

In arriving at our opinion regarding the terms of the Acquisition Agreement, we have considered the following principal factors and reasons:

1. Background of and reasons for entering into the Acquisition Agreement

We summarise the chronological background of the Acquisition as follows:

Date	Document signed	Signing parties	Subject matter
18 September 2007	the LOI	1. Langfang Hengyu 2. Mr. Liu	Proposed acquisition by Langfang Hengyu of the Target Business
19 October 2007	the Acquisition Agreement	1. Langfang Hengyu 2. Jixiangniao Furniture Factory 3. Mr. Liu	

(i) Past financial performance of the Group

We summarise the audited financial information of the Group for the three most recent financial years/periods as follows:

<i>HK\$'000</i>	Year ended 31 December			Six months ended 30 June	
	2004	2005	2006	2006	2007
Turnover	2,287	22,656	160,414	60,649	164,649
Gross profit	138	2,669	49,991	18,057	54,743
Profit/(Loss) before taxation	(14,141)	(2,507)	41,666	16,189	44,975
Profit/(Loss) attributable to Shareholders	(14,141)	(14,136)	47,518	15,430	44,275
Dividend	N/A	N/A	N/A	N/A	N/A
<i>Net assets</i>	3,380	(6,276)	63,170	11,352	216,732

Source: annual reports and interim reports of the Company

LETTER FROM PARTNERS CAPITAL

Since the date of listing in July 2000 up to 2003, the Company was principally engaged in sales of software license and related services and provision of maintenance services, but was loss-making during the period. In 2004, the Group commenced to engage in the provision of telephone subcontracting services and discontinued the said software license and maintenance business. However, the Group remained loss making in 2004.

In 2005, the Group embarked on the household products business. In 2006, the Group disposed of its software businesses and its telephone subcontracting services business. After changing its business focus to manufacture and sale of household products (mainly on home furniture in the PRC and oversea markets), the Group became profitable from 2006 onwards. We summarise the audited segment results of the Group for the three most recent financial years/periods as follows:

	HK\$'000	Year ended 31 December			Six months ended 30 June	
		2004	2005	2006	2006	2007
Telephone sets subcontracting services	Revenue	2,287	3,329	614	514	-
	Segment results	(4,806)	(11,629)	(864)	25	-
				(Note)		
Manufacturing and sales of household products	Revenue	-	22,656	160,414	60,648	164,649
	Segment results	-	2,037	45,852	18,057	54,743

Source: annual reports and interim reports of the Company

Note: excluding gain on disposal of operations

According to the annual reports and the interim reports of the Company, the telephone subcontracting services business of the Group performed badly owing to the unfavorable market sentiments prevailing in the information technology market in the PRC, as well as keen market competition. This is coincidental to and can be demonstrated by the consistently high segment loss margin of the telephone sets subcontracting services up to 2006 (2004: 210.1%; 2005: 349.3%; 2006: 140.7%).

On the contrary, the manufacturing and sales of household products business of the Group has been expanding in terms of revenue (2005: HK\$22.65 million; 2006: HK\$160.41 million; 2007H1: HK\$164.65 million) and segment results margin (2005: 9.0%; 2006: 28.6%; 2007H1: 33.2%). This suggests that the household products business is an important segment to help turnaround the Group's financial performance.

LETTER FROM PARTNERS CAPITAL

(ii) *Financial performance of the Target Business*

As set out in the Letter from the Board, the business to be acquired under the Acquisition Agreement including (i) the Trademark; (ii) the business of manufacturing and wholesaling of sofa, tea tables and living room furniture and the relevant operating assets of Jixiangniao Furniture Factory (including but not limited to all the contracts, agreements or undertakings in relation to the aforesaid business and assets signed with any Independent Third Parties and all the rights and benefits derived therefrom) but excluding any debts and liabilities; and (iii) the inventory level as at the Stock Valuation Date. We summarise the financial information of the Target Business for the recent financial years/period as follows:

<i>RMB'000</i>	Year ended 31 December		Six months
	2005	2006	ended 30 June
			2007
Turnover	24,839.0	28,567.8	15,461.5
Gross profit	4,196.9	5,608.6	3,644.8
Net profit after taxation	3,416.9	3,929.5	2,552.9
Dividend	N/A	N/A	N/A
<i>Net assets</i>	5,384.2	9,313.7	12,316.6

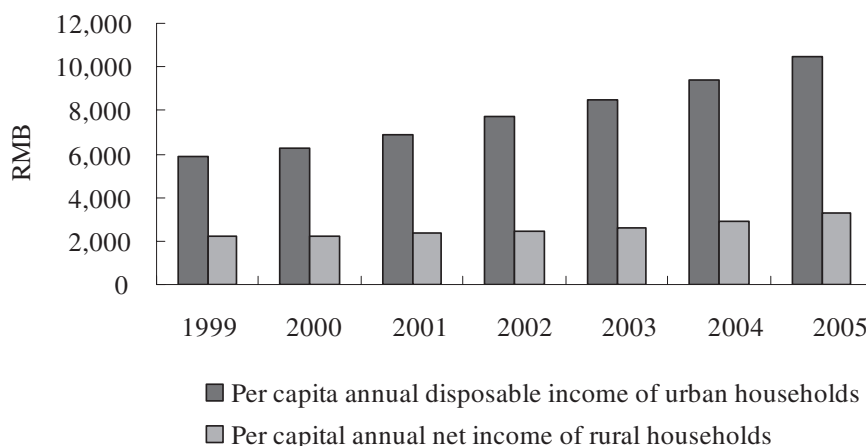
Source: unaudited data circulated by the Directors (prepared in accordance with the PRC accounting standards)

As illustrated in the above table, for the three years ended 31 December 2006, the Target Business recorded

- (i) improving trend of gross profit margin (2005: 16.9%; 2006: 19.6%; 2007H1: 23.6%);
- (ii) improving trend of net profit margin (2005: 13.8%; 2006: 13.8%; 2007H1: 16.5%); and
- (iii) decreasing trend of return on net assets (2004: 63.5%; 2005: 42.2%; 2007H1: 41.5% (adjusted on an annualised basis)), which can be attributable to the continuous increase in net tangible assets during the years/period via accumulation of retained profits in the absence of dividend payout).

(iii) *Industry overview of the PRC furniture market*

In the past few years, the PRC underwent a rapid economic growth. According to National Bureau of Statistic of China, personal income in China has been increasing with economic growth and rapid urbanization. During the period from 1999 to 2005, the per capita annual disposable income of urban households in China increased from RMB5,854.0 to RMB10,493.0, representing a CAGR of 10.2% and the per capita net income of rural households increased from RMB2,210.3 to RMB3,254.9, representing a CAGR of 6.7%.



Source: *National Bureau of Statistic of China*

According to China National Furniture Association as quoted in CIEN (《中國產經新聞》), the per capita expenditure on furniture in the PRC in 2006 was only US\$30. When compared to US\$50 of per capita expenditure on furniture in the world, there is growing potential in the PRC furniture market. The demands for housing as well as household products such as home furniture are in a position to grow in tandem with the continuous improvement in living standard and household income in the PRC.

(iv) *Reasons for the Acquisition*

As set out in the Letter from the Board, the Group aims to develop into a comprehensive enterprise providing a blend of production and retailing services according to the Company's latest interim report for the six months ended 30 June 2007. The Directors are of the view that the Acquisition (i) will broaden the product variety of the Group; (ii) will enable the Group to expand its business into the sofa and tea tables sector of the furniture industry; and (iii) will further diversify the brands and sales network of the Company as a result of the expansion of the Group's production capacity, which is in line with the Group's business objective to provide comprehensive services on the production and retailing.

At present, the Group is principally engaged in the manufacture and sale of household products focusing on home furniture. Based on our analysis in the earlier section, we note that the household products business was key to the turnaround of the Group's financial performance

since 2006. We consider the Group's proposed acquisition of the Target Business (which covers sofa and tea tables sector of the furniture industry) is in line with, and is part of a natural extension and development of, the existing core business of the Group. Upon enquiry, we understand from the Directors that the product lines of the Target Business are of lower end than (and hence can be complimentary to) those of the Group.

On the above basis, and taking into further account of the growth potential of PRC furniture market as analysed in the earlier section, we further consider that there is a commercial rationale for the Group to put forward the Acquisition. Upon further enquiry, we were confirmed by the Directors that the acquisition of an existing business which possesses a profitable financial performance track record, an established product line with trademark, and an established sales network (such as in the case of the Target Business) would save the Group from pre-operating expenses and uncertain start-up risk which would otherwise incur in the case of new set-up by the Group on its own.

2. Key terms of the Acquisition Agreement

(i) Consideration

Pursuant to the Acquisition Agreement, Langfang Hengyu conditionally agreed to acquire from Jixiangniao Furniture Factory the Target Business at a consideration which is divided into the following two components:

- (1) the appraisal value of RMB4,520,000 of the Trademark as at 30 September 2007 and the appraisal value of RMB306,112.53 of the Target Business (excluding the inventory and the Trademark) as at 15 October 2007 as appraised by an independent qualified PRC valuer as stated in its valuation report and the value of the inventory as at the Stock Valuation Date; and
- (2) an amount calculated by reference to the audited net profit of the Target Business for the year ending 31 December 2008 and in accordance with the following formula:

$$A \times B - C$$

whereas,

A = the audited net profit of the Target Business for the year ending 31 December 2008

B = price to earnings ratio

C = the value or the appraisal value of the Target Business as referred to in component (1) above

LETTER FROM PARTNERS CAPITAL

- (a) if A is between RMB10 million (inclusive) and RMB12 million (inclusive), then B is 6;
- (b) if A is less than RMB10 million but more than or equals to RMB8 million, then B is 5;
- (c) if A is less than RMB8 million but more than or equals RMB6 million, then B is 4;
- (d) if A is less than RMB6 million, then B is zero, that means component (1) above is the total consideration of the Acquisition;
- (e) if A exceeds RMB12 million (for the purpose of this paragraph (e), A is capped at RMB15 million), then component (2) of the consideration of the Acquisition shall be calculated as follows:

$$\text{RMB12 million} \times B + (A - \text{RMB12 million}) \times 50\% - C$$

whereas,

$$B = 6$$

$$C = \text{the value or the appraisal value of the Target Business as referred to in component (1) above}$$

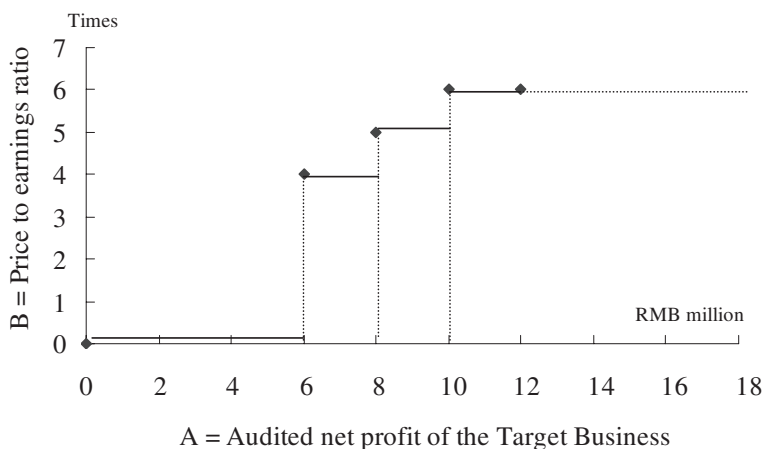
As far as component (1) or (C) is concerned, we have discussed with the independent qualified PRC valuer on the relevant valuation approaches. We note from the relevant valuation report that the nature of the Trademark comprises the trademark of “吉翔鳥JIXIANGNIAO” for 軟墊 registered from February 2007 up to February 2017, whereas the nature of the Target Business (excluding the inventory and the Trademark) comprises 126 different items of machinery and equipment. The independent qualified PRC valuer has adopted (i) the reproduction cost approach to value the Trademark and (ii) the depreciated replacement cost approach to value the machinery and equipment. We consider such valuation approach to be generally in line with market practice of valuing the market value of machinery and equipment, for which the identification of active used-equipment market in the PRC that provides information on recent transactions of comparable items is difficult. Upon review of the relevant valuation report, we note that the assessed replacement costs of the Trademark are made up of two components, namely (a) advertising expenses so far incurred on promoting the Trademark of about RMB1,900,000 and (b) sales, marketing and other expenses spent for building up the Trademark of about RMB2,620,000; whereas the assessed replacement cost of the machinery and equipment range from RMB130 to RMB24,600 per item, and the assessed depreciation rate ranges from 16% to 99% per item.

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As far as the value of the inventory for the purpose of component (1) or (C) is concerned, we were confirmed by the Directors that an independent auditor will be appointed by the Group to perform stock-take as at the Stock Valuation Date.

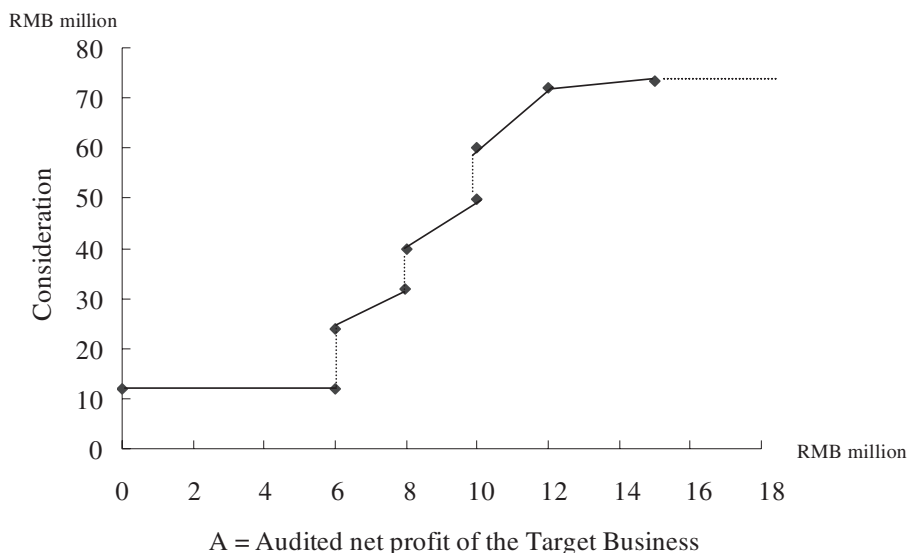
As advised by the Directors, the manufacturing operation of the Target Business can be subject to instant continuation upon completion of the Group's acquisition of the said items of machinery and equipment (which have been housed under factory premises leased by Jixiangniao Furniture Factory) on the First Completion Date, whereas the wholesaling operation of the Target Business can also be subject to instant continuation upon completion of the Group's acquisition of all the contracts, agreements or undertakings in relation to the Target Business and the relevant operating assets of Jixiangniao Furniture Factory signed with any Independent Third Parties and all the rights and benefits derived therefrom on the First Completion Date (including contracts with existing staff, distributors, suppliers and landlords, with or without the Trademark).

As far as component (2) is concerned, we try to plot the relationship of the price to earnings ratio (component B) against the audited net profit of the Target Business for the year ending 31 December 2008 (component A) in the following graph:



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As far as component (2) is concerned, we further try to plot the relationship of the resultant Consideration against the audited net profit of the Target Business for the year ending 31 December 2008 (component A) in the following graph:



We note that the maximum amount of the Consideration payable of not exceeding RMB73.5 million (being RMB12 million x 6 + (RMB15 million – RMB12 million) x 50%) represents a significant premium over the original purchase cost of the Target Business (excluding inventory) to Jixiangniao Furniture Factory of approximately RMB388,223. For the purpose of assessing of the Consideration, the following approaches are taken into consideration:

- Price/earnings multiple

As set out in the Letter from the Board, the Consideration under the Acquisition Agreement is determined after arm's length negotiation between Langfang Hengyu and Jixiangniao Furniture Factory on normal commercial terms with reference to the audited net profit to be generated from the Target Business for the year ending 31 December 2008, multiplied by a price-to-earnings ratio which is determined with reference to the price-to-earnings ratio of companies listed in Hong Kong which are engaged in similar business with the Company.

As the Target Business is principally engaged in the manufacturing and wholesaling of sofa, tea tables and living room furniture, reference to price/earnings multiple should be the most common approach adopted by the investment community in valuing such kind of revenue-generating entities. Based on the list of companies as generated by Bloomberg for the similar industry, we have identified (to the best of our knowledge) 6 companies listed on the Stock

LETTER FROM PARTNERS CAPITAL

Exchange, Shenzhen Stock Exchange and Shanghai Stock Exchange (the “Comparables”), details of which are set out below:

Stock code	Company Name	Principal Business Activities	Closing	Market	Latest	Price/earnings multiple	Latest net	Price/book multiple
			share price as at 19 October 2007	Capitalisation as at 19 October 2007	full-year earnings per share published by 19 October 2007		asset value per share published by 19 October 2007	
			(RMB/HK\$)	(RMB/HK\$ million)	(RMB/HK\$)	(times)	(RMB/HK\$)	(times)
496.HK	Kasen International Holdings Ltd.	Processing of raw cowhides and wet blues into finished leather or fully assembled leather products	HK\$1.00	HK\$990.05M	HK\$0.07	15.06X	HK\$2.27	0.44X
531.HK	Samson Holding Ltd.	Manufacturing and trading of wooden furniture	HK\$2.29	HK\$6,320.40M	HK\$0.29	7.88X	HK\$1.28	1.79X
1198.HK	Chitaly Holdings Ltd.	Design, manufacture and sale of a wide range of home furniture	HK\$1.48	HK\$444.87M	HK\$0.09	16.66X	HK\$1.52	0.97X
600978.SH	Guangdong Yihua Timber Industry Co., Ltd.	Production and acquisitions of logs; processing of decorative wood products and wood	RMB19.19	RMB12,852.99M	RMB0.82	23.31X	RMB4.88	3.93X
600337.SH	Markor International Furniture Co., Ltd.	Manufacturing and sale of decoration materials, solid wood furniture, polyester furniture and accessory products	RMB24.23	RMB6,282.09M	RMB0.16	150.27X	RMB3.85	6.30X

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Stock code	Company Name	Principal Business Activities	Closing	Market	Latest		Latest net	
			share price as at 19 October 2007	Capitalisation as at 19 October 2007	full-year earnings per share published by 19 October 2007	Price/earnings multiple	asset value per share published by 19 October 2007	Price/book multiple
			(RMB/HK\$)	(RMB/HK\$ million)	(RMB/HK\$)	(times)	(RMB/HK\$)	(times)
000587.SZ	Guangming Group Furniture Co., Ltd.	Furniture manufacturing; processing of wood products, semi-finished products and decorative materials; and sales of furniture, wood products, decoration materials, packaging and decorating materials.	RMB7.40	RMB1,374.27M	-RMB0.30	N/A	-RMB0.56	N/A
					Median	15.86X	Median	1.38X
					Mean	38.34X	Mean	2.24X
	The Target Business			Not more than RMB73.5 million		Not more than 6X		Not more than 4.27X
								(Note 1)

Note:

1. Estimated with an assumed inventory value of RMB7,200,000
2. PRC listed companies are denominated in Renminbi; while HK listed companies are denominated in HK\$.
3. Assuming US\$1=HK\$7.78 and RMB1=HK\$1.04

Source: Bloomberg and www.hkex.com.hk

Upon comparison, we note that the price/earnings multiple represented by the Consideration of zero to 6 times is lower than the range of the Comparables from 7.88 times to 150.27 times (and is lower than the median of the Comparables of 15.86 times), which were calculated with reference to the respective closing price of shares of the Comparables as at 19 October 2007 (being the last trading day prior to the signing of the Acquisition Agreement) and the latest full-year earnings per share published by 19 October 2007.

LETTER FROM PARTNERS CAPITAL

From the perspective of price/earnings multiples with reference to the Comparables, we consider that the Consideration is acceptable so far as the Independent Shareholders are concerned.

- Price/book multiple

In addition to price/earnings multiples, we also assess the Target Business by reference to its net asset value. To this end, we have reviewed and tabulated in the above table the price/book multiples of the Comparables as at 19 October 2007 as reported in their latest published financial reports.

Upon comparison, we note that the price/book multiple represented by the Consideration of not more than 4.27 times (based on the unaudited net assets of the Target Business (after accounting for the valuation of the Trademark) as at 30 June 2007 of RMB16,836,600 (prepared in accordance with the PRC accounting standards) to be adjusted by an assumed inventory value of RMB7,200,000 as estimated by the Directors) is within the range of the Comparables from 0.44 times to 6.3 times (but is higher than the median of the Comparables of 1.38 times), which were calculated with reference to the respective closing price of shares of the Comparables as at 19 October 2007 (being the last trading day prior to the signing of the Acquisition Agreement) and the latest net asset value per share published by 19 October 2007.

On the above basis and from the sole perspective of assessment of the Consideration with respect to the net asset value, we consider that the upper limit of the Consideration is not entirely attractive. In any event, it may not be most relevant in general to value a company principally engaged in manufacturing business by reference solely to its net assets.

(ii) Mode of settlement of Consideration

The Consideration shall be satisfied by Langfang Hengyu in the following manners:

- (a) the value of the Target Business (as referred to in component (1) of the Consideration above) shall be payable in RMB cash on the First Completion Date;
- (b) the remaining balance of the Consideration (as referred to in component (2) above) shall be payable in RMB cash by the following installments:
 - (i) 30% on the Second Completion Date or 30 April 2009, whichever is the later;
 - (ii) 30% on either the date 12 months after the Second Completion Date or 30 April 2010, whichever is the later; and
 - (iii) 40% on either the date 24 months after the Second Completion Date or 30 April 2011, whichever is the later.

LETTER FROM PARTNERS CAPITAL

Mr. Liu has agreed and undertaken to Langfang Hengyu that, subsequent to the First Completion, Mr. Liu will continue or procure Jixiangniao Furniture Factory to continue to assist in the operation and management of the Target Business during the period as requested by Langfang Hengyu. In consideration of the above, Langfang Hengyu has agreed that if each of the audited net profit of the Target Business for the year ending 31 December 2009 (and 2010) exceeds the figure for the year ending 31 December 2008 (and 2009) multiplied by 125%, then Langfang Hengyu shall pay Jixiangniao Furniture Factory an extra amount equivalent to 50% of the difference between the two figures as performance bonus; on the other hand, if each of the audited net profit of the Target Business for the year ending 31 December 2009 (and 2010) is less than the figure for the year ending 31 December 2008 (and 2009) multiplied by 125%, then any such difference shall be deducted as penalty from the payment installment referred to in paragraph (b)(ii) (and (b)(iii)) above.

The amount of penalty as described above shall not be subject to any cap, but in any case, the payment installment referred to in paragraph (b)(ii) and (b)(iii) above shall not be less than zero. Upon discussion with the Directors, we consider such penalty deduction from the payment installment is a safeguarding measure serving to mitigate the total Consideration payable by the Group (as purchaser) by up to an extent of RMB22.05 million (and RMB29.40 million) if the audited net profit of the Target Business for the year ending 31 December 2009 (and 2010) is less than the figure for the year ending 31 December 2008 (and 2009) multiplied by 125%.

Notwithstanding that it is necessary for Langfang Hengyu to pay Jixiangniao Furniture Factory an extra amount equivalent to 50% of the excess of each of the audited net profit of the Target Business for the year ending 31 December 2009 (and 2010) over the figure for the year ending 31 December 2008 (and 2009) multiplied by 125%, we understand from the Directors that such performance bonus arrangement is a measure serving to better motivate Mr. Liu to continue or procure Jixiangniao Furniture Factory to continue to assist in the operation and management of the Target Business by way of directly aligning his/its interests to those of Langfang Hengyu. We further note that such 50:50 apportionment ratio is consistent with and equivalent to that applied to the component (2) of the Consideration (specifically, on the excess of the component A over RMB12 million, where component A is capped at RMB15 million).

3. Financial effects of the Acquisition on the Group

(i) Cashflow

- Impact from the mode of settlement of the Consideration

As set out in the Letter from the Board, the Group intends to use its internal resources and/or bank borrowings (if necessary) to satisfy the Consideration of the Acquisition.

As set out in the interim report of the Company for the six months ended 30 June 2007, we note that the unaudited cash and cash equivalents of the Group amounted to approximately HK\$25.0 million as at 30 June 2007, which was less than the maximum amount of Consideration payable of not exceeding RMB73.5 million (being RMB12 million x 6 + (RMB15 million – RMB12 million) x 50%). Notwithstanding that, after taking into account that (i) the latest unaudited cash and cash equivalents of the Group as

LETTER FROM PARTNERS CAPITAL

at 30 September 2007 (after accumulation of three-months' cash inflow subsequent to 30 June 2007); and (ii) the Consideration is to be payable on an instalment basis (partially on (a) the First Completion Date, (b) 30 April 2009 (or the Second Completion Date, whichever is the later), (c) 30 April 2010 (or 12-month after the Second Completion Date, whichever is the later), and (d) 30 April 2011 (or 24-month after the Second Completion Date, whichever is the later)), the Directors confirmed that the Group will have sufficient working capital for meeting the settlement obligation of the Consideration.

- **Impact from the funding requirements of the Target Business**

Upon enquiry, we were advised by the Directors that the Target Business can basically be self-sustained in securing its own financial resources for ongoing development, and hence no material capital commitment on the part of the Group is expected to arise upon and after Completion for supporting the Target Business other than renovation costs for new retail outlets to be opened if and when necessary. We were further advised by the Directors that the Target Business has no material capital commitment or contingent liabilities.

Upon further enquiry, the Directors confirm that no related party transactions/balances of the Target Business prevail.

(ii) *Net assets*

According to the interim report of the Company for the six months ended 30 June 2007, the unaudited consolidated net assets of the Group as at 30 June 2007 were approximately HK\$63,170,000. Based on the unaudited financial information as circulated by the Directors, which is prepared in accordance with the PRC accounting standards, the unaudited net assets of the Target Business (excluding the Trademark) as at 30 June 2007 was RMB12,316,600.

Upon discussion, subject to the audited net profit of the Target Business for the year ending 31 December 2008 which will finalise the actual size of component (2) of the Consideration, the Directors expect that a positive goodwill might arise on acquisition of the Target Business, which will represent the excess of the actual Consideration (of maximum amount not exceeding RMB73.5 million) over the fair value of the identifiable net assets of the Target Business upon Completion. Such goodwill should be tested for impairment annually, or more frequently if the events or changes in circumstances that indicate a possible impairment. Where impairment exists, the impairment loss could adversely affect the earnings of the Group in future.

(iii) *Gearing*

As set out in the Letter from the Board, the business to be acquired under the Acquisition Agreement excludes any debts and liabilities. On this basis, and assuming that the Consideration is not to be funded by new loan(s), the Directors expect no material increase in the gearing ratio of the Group immediately upon Completion, other than arising from a new liability to be recognised for possible future offset of the positive goodwill in case the Consideration turns out to be lower than RMB73.5 million.

LETTER FROM PARTNERS CAPITAL

Upon enquiry, we have obtained confirmation from the Directors that there is no mortgage or pledge of assets of, or guarantee by, the Target Business.

(iv) *Earnings*

As set out in the annual report of the Company for the year ended 31 December 2006, the consolidated net profit attributable to the Shareholders was approximately HK\$47,518,000.

After Completion, the consolidated financial results of the Target Business will be consolidated into the accounts of the Group. Based on the unaudited financial information in respect of the Target Business provided by Jixiangniao Furniture Factory, which is prepared in accordance with the PRC accounting standards, the net profit after tax and extraordinary items attributable to the Target Business for the year ended 31 December 2006 was RMB3,929,500.

In any event, we expect that the actual impact of the Acquisition on the Group's earnings after Completion would largely depend on the market demand of the products of the Target Business and the implementation of the sales strategy of the Target Business.

4. Risk factors

In assessing the terms and the merits of the Acquisition Agreement, we note that the Acquisition is associated with certain risk factors, which should however be commonly found to prevail in the PRC furniture market. Attention of the Independent Shareholders is drawn to balance these risk factors against the potential benefits expected to accrue from the Acquisition, which include broadening the product variety of the Group and further diversifying the brands and sales network of the Company as a result of the expansion of the Group's production capacity, which in turn is in line with the Group's business objective to provide comprehensive services on the production and retailing. Given that "manufacture and sale of household products focusing on home furniture" is the core business of the Company, most of the risk factors to be discussed below should already be in line with the ongoing risk exposure of the Company and the risk profile of Shareholders:

(i) *Intense competition in the PRC furniture market*

Some of the Target Business' competitors may have greater financial, manufacturing or other resources than the Target Business has. Current and prospective customers evaluate furniture manufacturers based on manufacturing capabilities, speed, quality, flexibility and costs, among other things. The Target Business' competitors may also manufacture in lower cost areas to decrease their costs of production. The Target Business may lose customers to competitors if the Target Business fails to maintain selling prices at a competitive level.

The furniture industry is subject to fashion trends and consumer tastes, which can change rapidly. In order to compete successfully in this market, product offerings must be innovative in design, useful to the customer, well-made and generally price competitive. Due to the large number of competitors and their wide range of product offerings, the Target Business may or may not be able to differentiate its products from those of competitors, failing which the demand for the Target Business' products could be reduced.

(ii) *Reliance on the PRC market*

For each of the two years ended 31 December 2006, sales to the PRC market accounted for 100% of the Target Business' revenue. Thus, any adverse changes in the economic conditions of the PRC may have a negative impact on the business of the Target Business.

(iii) *Reliance on major suppliers*

For the two years ended 31 December 2005 and 2006, and the nine months ended 30 September 2007, the top five suppliers of the Target Business accounted for approximately 60.0%, 61.0% and 74.4% respectively of the Target Business' total purchases (prepared in accordance with the PRC accounting standards). For the same period, the largest supplier of the Target Business accounted for approximately 28.2%, 26.2% and 32.6%, respectively, of the Target Business' total purchases. The Directors confirm that the Target Business has not entered into a long-term purchase agreement with its major suppliers. If the major suppliers cease the business relationship with the Target Business and the Company cannot find an alternative supplier in a short period of time, the profitability and business of the Target Business may be adversely affected.

(iv) *Availability and price of the raw materials*

In terms of cost structure of the Target Business' products, we were confirmed by the Directors that the costs of raw materials roughly accounted for about 85% of the total costs of production for the two years ended 31 December 2006 and the nine months ended 30 September 2007. The principal raw materials purchased by the Target Business for the production of its products include wood board, sponge and cloth. The Target Business is subject to the risk of price fluctuation in (and rely on a stable and timely supply of) raw materials, which in turn is determined by the availability of the supply and demand for such materials.

(v) *Reliance on single production facility*

Virtually all of the Target Business's products are manufactured in the Target Business' leased factory located in Pengdao, Langfang Economic & Technical Development Zone, Hebei Province (河北省廊坊開發區鵬道). The Target Business' profitability would be adversely affected if the factory's operation is interrupted or ceased for any reason.

(vi) *Reliance on key management*

We understand from the Directors that Mr. Liu, aged 36, set up Jixiangniao Furniture Factory in 2003 as sole shareholder and sole director. We further understand from the Directors that Mr. Liu had been continuously engaging in the PRC furniture industry since 1999. The success of the Target Business, to a larger extent, depends on the continued service and performance of the key management of the Target Business including Mr. Liu. The cessation of services by any of the key management of the Target Business in the future may adversely affect the Group's operation and business.

LETTER FROM PARTNERS CAPITAL

RECOMMENDATION

The upper limit of the Consideration is not entirely attractive from the sole perspective that the price/book multiple represented by the Consideration is higher than the median of the Comparables. However, we note that the price/book multiple represented by the Consideration is still within the range of the Comparables, and in any event it may not be most relevant in general to value a company principally engaged in manufacturing business by reference solely to its net assets. Having considered other principal factors, in particular,

- (i) the Group's proposed acquisition of the Target Business (which covers sofa and tea tables sector of the furniture industry) is in line with, and is part of a natural extension and development of, the existing core business of the Group, which was key to the turnaround of the Group's financial performance since 2006;
- (ii) the price/earnings multiple represented by the Consideration of zero to 6 times is lower than the range of the Comparables (and is lower than the median of the Comparables);
- (iii) the penalty deduction from the payment installment is a safeguarding measure serving to mitigate the total Consideration payable by the Group (as purchaser) if the audited net profit of the Target Business for the year ending 31 December 2009 (and 2010) is less than the figure for the year ending 31 December 2008 (and 2009) multiplied by 125%;
- (iv) the performance bonus arrangement is a measure serving to better motivate Mr. Liu to continue or procure Jixiangniao Furniture Factory to continue to assist in the operation and management of the Target Business by way of directly aligning his/its interests to those of Langfang Hengyu; and
- (v) the risk factors associated with the Acquisition of a PRC furniture manufacturer, most of which should however be already in line with the ongoing risk exposure of the Company and the risk profile of Shareholders,

we consider that the terms of the Acquisition Agreement are, on balance, fair and reasonable so far as the Independent Shareholders are concerned and are in the interests of the Company and the Shareholders as a whole. Accordingly, we recommend the Independent Board Committee to advise the Independent Shareholders, and we recommend the Independent Shareholders, to vote in favour of the resolution to approve the Acquisition Agreement in the SGM.

Yours faithfully,

For and on behalf of

Partners Capital International Limited

Alan Fung

Managing Director

Harry Yu

Executive Director

1. RESPONSIBILITY STATEMENT

This circular, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with 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:

- (a) the information contained in this circular is accurate and complete in all material respects and not misleading;
- (b) there are no other matters the omission of which would make any statement in this circular misleading; and
- (c) all opinions expressed in this circular have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.

2. DISCLOSURE OF INTERESTS

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

As at the Latest Practicable Date, the interests and short positions of the Directors, and chief executives 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 Rule 5.46 of the GEM Listing Rules were as follows:

Long position

Ordinary Shares of HK\$0.002 each in the capital of the Company

Name of Director/ Chief Executive	Capacity	Number of shares held	Approximate percentage of total issued share capital in the Company
Mr. Li Ge	Beneficial owner	36,108,000	3%

Save as disclosed above, as at the Latest Practicable Date, none of the Directors and chief executives of the Company was, under Divisions 7 and 8 of Part XV of the SFO, taken to be interested or deemed to have any other interests of short positions in 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

To the best knowledge of the Directors or chief executives of the Company, as at the Latest Practicable Date, the following persons (other than the Directors and chief executives of the Company) had interests or short position in the shares or underlying shares of the Company which as recorded in the register of interests required to be kept by the Company pursuant to section 336 of the SFO:

Long position**Ordinary Shares of HK\$0.002 each in the capital of the Company**

Name	Capacity	Number of Shares held (Note 1)	Approximate percentage of total issued share capital in the Company
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%
Mr. Zhou Xu En	Beneficial owner	109,082,430	9.07%
Citigroup Inc.	Person having a security interest in shares	71,776,000	5.97%
Sino Hope Investments Limited	Beneficial owner	69,953,330	5.82%
Mr. Zhao Jiangong (Note 3)	Interest of controlled corporation	69,953,330	5.82%
INVESCO Hong Kong Limited	Investment manager	61,000,000	5.07%
Fair China Focus Fund Limited	Beneficial owner	60,776,000	5.05%
Fair Investment Management Limited (Note 4)	Interest of controlled corporation	60,776,000	5.05%
Mr. Lau Tak Chuen, Airy (Note 5)	Interest of controlled corporation	60,776,000	5.05%
Deutsche Bank Aktiengesellschaft	Beneficial owner	60,200,000	5.00%

Notes:

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 the Latest Practicable Date.
2. Ms. HUANG Ye-hua is interested by virtue of her 100% beneficial interest in True Allied Assets Limited.
3. Mr. ZHAO Jiangong is interested by virtue of his 100% beneficial interest in Sino Hope Investments Limited.
4. Fair Investment Management Limited is interested by virtue of its 100% beneficial interest in Fair China Focus Fund Limited.
5. 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 the Latest Practicable Date, the Board is not aware of any other persons (other than the Directors and chief executives of the Company) that had interests or short position in the shares or underlying shares of the Company that was required to be recorded pursuant to section 336 of the SFO.

So far as is known to the Directors or chief executives of the Company, as at the Latest Practicable Date, no person, other than the Directors or chief executives of the Company, has an interest or short position in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or, who is expected, directly or indirectly, to be interested in 10 per cent or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of the Group or has any options in respect of such capital.

3. COMPETING INTERESTS

As at the Latest Practicable Date, none of the Directors or the management shareholders (as defined in the GEM Listing Rules) of the Company or their respective associates competes or may compete with the business of the Group or has or may have any other conflicts of interest with the Group required to be disclosed pursuant to the GEM Listing Rules.

4. LITIGATION

As at the Latest Practicable Date, no litigation or claim of material importance is known to the Directors or the Company to be pending or threatened by or against any member of the Group.

5. SERVICE CONTRACTS

As at the Latest Practicable Date, none of the Directors has entered, or is proposing to enter, into any service contract with the Company or its subsidiaries which is not expiring or may not be terminated by the Company within a year without payment of any compensation (other than statutory compensation).

6. EXPERT

- (a) The following is the qualification of the expert who has been named in this circular or has given opinion or advice contained in this circular:

Name	Qualification
Partners Capital	a corporation licensed to carry on Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities under the SFO

- (b) Partners Capital has given and has not withdrawn its written consent to the issue of this circular with the inclusion of its letter of advice and references to its name in the form and context in which they are respectively included.
- (c) As at the Latest Practicable Date, Partners Capital has no shareholding in the Company, or any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities of the Company.
- (d) Partners Capital has no direct or indirect interest in any assets which have been acquired or disposed of by, or leased to, the Company or are proposed to be acquired or disposed of by, or leased to, the Company since 31 December 2006, the date to which the latest published audited accounts of the Company were made up.
- (e) The letter of advice from Partners Capital dated 12 November 2007 is given on page 18 to 34 for incorporation herein.

7. DIRECTORS' INTERESTS IN ASSETS AND CONTRACTS

As at the Latest Practicable Date, none of the Directors was materially interested, directly or indirectly, in any contract or arrangement entered into by any member of the Group subsisting at the Latest Practicable Date which was significant in relation to the business of the Group.

As at the Latest Practicable Date, none of the Directors was interested in any assets which had been acquired or disposed of by or leased to any member of the Group, or were proposed to be acquired or disposed of by or leased to any member of the Group since 31 December 2006, the date to which the latest published audited accounts of the Company were made up.

8. MATERIAL CHANGES

The Directors confirmed that there was no material adverse changes in the financial or trading position or prospects of the Group since 31 December 2006, the date to which the latest published audited consolidated accounts of the Group have been made up, up to the Latest Practicable Date.

9. MISCELLANEOUS

- (a) The registered office of the Company is situated at Clarendon House, 2 Church Street, Hamilton HM 11, Bermuda. The principal place of business of the Company in Hong Kong is situated at Room 1005, C.C. Wu Building, 302-8 Hennessy Road, Wanchai, Hong Kong while the Hong Kong branch share registrar and transfer office of the Company is Tricor Tengis Limited at 26/F., Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong.
- (b) The company secretary and the qualified accountant of the Company is Mr. Chan Yuk Hiu Taylor (陳玉曉先生), who is an associate member of the Association of Chartered Certified Accountants and an associate member of the Hong Kong Institute of Certified Public Accountants; and the compliance officer of the Company is Mr. Li Ge (李革先生) who is also an executive Director.
- (c) The Company has established an audit committee in July 2000 with its written terms of reference being in compliance with Rules 5.28 to 5.33 of the GEM Listing Rules. 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. As at the Latest Practicable Date, the audit committee comprised three members, namely Mr. Lee Yuen Kwong, Mr. Yang Dongli and Mr. Yang Jie, being independent non-executive Directors.
- (d) Details of the members of the audit committee are set out below:

Mr. Lee Yuen Kwong, aged 46, graduated at University of Sunderland, England, is a fellow member of the Association of Chartered Certified Accountants and a fellow member of the Hong Kong Institute of Certified Public Accountants. Mr. Lee has over twenty years of experience in accountancy and financial management. Mr. Lee acts as an independent non-executive Director of Global Bio-chem Technology Group Company Limited and an independent non-executive Director of China Best Group Holding Limited.

Mr. Yang Dongli, aged 34, is currently a Production Department Manager and Senior Engineer in Beijing D&G Machinery Co., Ltd. Mr. Yang graduated in Air Industrial University North of China majoring in Management Engineering. Mr. Yang has over 10 years working experience.

Mr. Yang Jie, aged 25, is now an engineer of Technical Service Support Department of Epson (China) Co., Limited. Mr. Yang graduated from Beijing Petrochemistry Institute majoring in Process Equipment and Control Engineering. He has over two years of working experience. In addition, Mr. Yang has taken the training course on Human Resources Management and Listed Company Regulations held by Ren Ming University, and has also taken the training course on Business Administration held by Qing Hua University.

10. DOCUMENTS AVAILABLE FOR INSPECTION

A copy of the Acquisition Agreement is available for inspection during normal business hours at the principal place of business in Hong Kong of the Company at Room 1005, C.C. Wu Building, 302-8 Hennessy Road, Wanchai, Hong Kong from the date of this circular up to and including the date of the SGM.

NOTICE OF SPECIAL GENERAL MEETING

FAVA INTERNATIONAL HOLDINGS LIMITED

名家國際控股有限公司*

(Incorporated in Bermuda with limited liability)

(Stock Code: 8108)

NOTICE OF SPECIAL GENERAL MEETING

NOTICE IS HEREBY GIVEN that a special general meeting of FAVA International Holdings Limited will be held at 11:00 a.m. on 30 November 2007 (Friday) at Room 1005, C.C. Wu Building, 302-8 Hennessy Road, Wanchai, Hong Kong for the purpose of considering and, if thought fit, passing the following resolution, with or without amendment, as an ordinary resolution:

ORDINARY RESOLUTION

“THAT

- (a) the conditional acquisition agreement (the “Acquisition Agreement”) (a copy of which is produced before the meeting marked “A” and initialled by the chairman of the meeting for the purpose of identification) dated 19 October 2007 and entered into between Langfang Huari Hengyu Home Co., Ltd * (廊坊華日恒宇家居有限公司), an indirectly wholly-owned subsidiary of the Company as purchaser (the “Purchaser”), Langfang Development Zone Yunpeng Road Jixiangniao Furniture Factory* (廊坊開發區雲鵬道吉祥鳥家具廠) as vendor (the “Vendor”), and Mr. Liu Qian Jin (柳前進先生) as warrantor pursuant to which the Purchaser has agreed to acquire the Target Business (as defined in the circular of the Company dated 12 November 2007, hereinafter called the “Circular”) from the Vendor at the Consideration (as defined in the Circular), be and is hereby approved, confirmed and ratified, and the transactions contemplated thereunder be and are hereby approved;
- (b) any one director (“Director”) of the Company be and is hereby authorised to do or execute for and on behalf of the Company all such acts and things and such other documents under hand (and, where required, under the common seal of the Company together with such other Director or person authorised by the board of Directors) and to take such steps as he or they may consider necessary, appropriate, desirable or expedient to implement or give effect to the terms of the Acquisition Agreement, and all transactions contemplated under the Acquisition Agreement and all other matters incidental thereto or in connection therewith and to agree to and make such variation, amendment and waiver of any of the matters relating thereto or in connection therewith.”

By Order of the Board

FAVA INTERNATIONAL HOLDINGS LIMITED

Li Ge

Executive Director

Hong Kong, 12 November 2007

* For identification purposes only

NOTICE OF SPECIAL GENERAL MEETING

Notes:

- (1) Any member entitled to attend and vote at the meeting is entitled to appoint one or more proxies (if such member is the holder of two or more shares) to attend and to vote instead of them. A proxy need not be a member of the Company.
- (2) Where there are joint holders of any share any one of such joint holder may vote, either in person or by proxy, in respect of such share as if he were solely entitled thereto, but if more than one of such joint holders be present at any meeting the vote of the senior who tenders a vote, whether in person or by proxy, shall be accepted to the exclusion of the votes of the other joint holders, and for this purpose seniority shall be determined by the order in which the names stand in the register of members in respect of the joint holding.
- (3) A form of proxy for use at the meeting is enclosed.
- (4) To be valid, the form of proxy, together with the power of attorney or other authority, if any, under which is it signed or a certified copy of such power or authority, must be deposited at Company's branch share registrar in Hong Kong, Tricor Tengis Limited at 26/F Tesbury Centre, 28 Queen's Road East, Hong Kong not less than 48 hours before the time appointed for holding the meeting or adjourned meeting. Completion and return of the form of proxy will not preclude members from attending and voting in person at the meeting or adjourned meeting.