

* For identification purpose only

Third Quarterly Report 2007



名 家 國 際

FAVA INTERNATIONAL HOLDINGS LIMITED
名家國際控股有限公司*

(Incorporated in Bermuda with limited liability)

Stock Code : 8108

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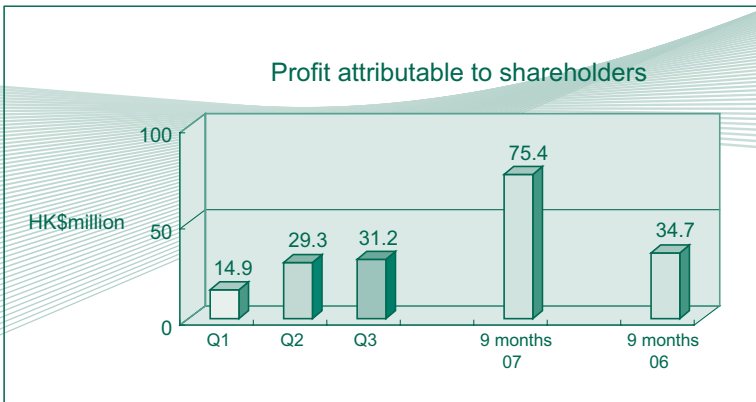
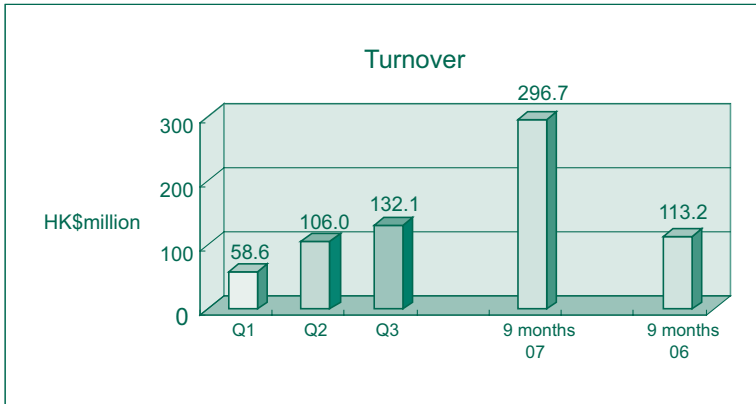
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This report, for which the directors (the “Director(s)”) of FAVA International Holdings Limited collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited (the “GEM Listing Rules”) for the purpose of giving information with regard to FAVA International Holdings Limited. The Directors, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief:– 1. the information contained in this report is accurate and complete in all material respects and not misleading; 2. there are no other matters the omission of which would make any statement in this report misleading; and 3. all opinions expressed in this report have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.

HIGHLIGHTS

With the successful acquisition of furniture manufacturing and retail business, both top line and bottom line grew continuously from quarter to quarter during this financial year.

Turnover and profit attributable to shareholder increased to HK\$296.7 million and HK\$75.4 million respectively for the first nine months this year, representing an increase of 162.1% and 117.1% as compared to same period last year.



THIRD QUARTERLY RESULTS (UNAUDITED)

The board of directors (the "Board") of FAVA International Holdings Limited (the "Company") is pleased to announce the unaudited consolidated results of the Company and its subsidiaries (the "Group") for the three months and nine months ended 30 September 2007 together with the comparative figures.

CONSOLIDATED INCOME STATEMENT (UNAUDITED)

For the three months and nine months ended 30 September 2007

	Notes	Three months ended 30 September		Nine months ended 30 September	
		2007 HK\$'000	2006 HK\$'000 (Restated)	2007 HK\$'000	2006 HK\$'000 (Restated)
Turnover	2	132,070	52,563	296,719	113,211
Cost of sales		(89,685)	(37,869)	(199,591)	(80,460)
Gross profit		42,385	14,694	97,128	32,751
Other revenue		505	24	829	186
Gain on disposal of subsidiaries		–	6,918	–	6,918
Administrative expenses		(4,623)	(1,147)	(10,137)	(2,956)
Other operating expenses		(6,722)	(630)	(10,781)	(814)
Profit from operations		31,545	19,859	77,039	36,085
Finance costs		(51)	(439)	(417)	(476)
Net unrealised holding loss on other investments in unit trust		(58)	–	(211)	–
Profit before taxation		31,436	19,420	76,411	35,609
Taxation	3	(277)	–	(977)	–
Profit for the period from continuing operations		31,159	19,420	75,434	35,609
Discontinued operations		–	(105)	–	(864)
Loss for the period from discontinued operations		–	(105)	–	(864)
Profit attributable to shareholders of the Company		31,159	19,315	75,434	34,745
Dividend	4	–	–	–	–
		HK cents	HK cents	HK cents	HK cents
Profit per share from continuing and discontinued operations – basic	5	5.3	16.1	12.9	29
Profit per share from continuing operations – basic	5	5.3	16.2	12.9	29.7

CONSOLIDATED BALANCE SHEET

		30 September 2007	31 December 2006
	<i>Notes</i>	HK\$'000	HK\$'000
		(Unaudited)	(Audited)
NON-CURRENT ASSETS			
Fixed assets		71,461	239
Other investment		2,786	–
		74,247	239
CURRENT ASSETS			
Inventories	7	66,995	28,609
Trade and bills receivables	8	13,819	9,862
Prepayments, deposits and other receivables	9	63,809	58,784
Amount due from a former subsidiary		–	51
Cash and bank balances	10	76,927	1,711
		221,550	99,017
CURRENT LIABILITIES			
Trade payables	11	21,054	18,351
Other payables and accrued liabilities	12	5,893	3,271
Receipts in advance		11,298	13,677
Amount due to a shareholder		–	761
Tax payable		7,487	–
Obligations under finance lease-due within one year		17	13
		45,749	36,073
NET CURRENT ASSETS		175,801	62,944
TOTAL ASSETS LESS CURRENT LIABILITIES		250,048	63,183
NON-CURRENT LIABILITIES			
Obligations under finance lease-due after one year		64	13
NET ASSETS		249,984	63,170
CAPITAL AND RESERVES			
Share capital	13	2,405	2,005
Reserves		247,579	61,165
		249,984	63,170

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (UNAUDITED)

	Share Capital	Share Premium	Contributed Surplus	Convertible		Exchange Reserve	Statutory Reserves	Total
				Equity Reserve	Notes Accumulated (Losses)/ Profits			
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
<i>For the nine months ended</i>								
<i>30 September 2006</i>								
At 1 January 2006	1,421	26,650	36,527	-	(70,734)	(140)	-	(6,276)
Placing of new shares	284	-	-	-	-	-	-	284
Premium arising from placing of new shares, net of expenses	-	1,419	-	-	-	-	-	1,419
Exchange difference arising from translation of financial statements of subsidiaries	-	-	-	-	-	369	-	369
Exchange difference realised on disposal of subsidiaries	-	-	-	-	-	(60)	-	(60)
Equity component of convertible notes	-	-	-	500	-	-	-	500
Net profit for the nine months ended 30 September 2006	-	-	-	-	34,745	-	-	34,745
At 30 September 2006	1,705	28,069	36,527	500	(35,989)	169	-	30,981
<i>For the nine months ended</i>								
<i>30 September 2007</i>								
At 1 January 2007	2,005	47,267	36,000	-	(30,604)	1,114	7,388	63,170
Subscription of shares	400	-	-	-	-	-	-	400
Premium arising from issue of new share, net of expense	-	104,511	-	-	-	-	-	104,511
Exchange differences arising from translation of financial statements of subsidiaries	-	-	-	-	-	6,469	-	6,469
Net profit for the nine months ended 30 September 2007	-	-	-	-	75,434	-	-	75,434
At 30 September 2007	2,405	151,778	36,000	-	44,830	7,583	7,388	249,984

Notes:

1. Basis of preparation

The Group's unaudited third quarterly results have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by Hong Kong Institute of Certified Public Accountants ("HKICPA"), accounting principles generally accepted in Hong Kong and the applicable disclosure requirements required by the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited (the "GEM Listing Rules") and the Companies Ordinance (Chapter 32 of the Laws of Hong Kong).

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

The accounting policies adopted in preparing the unaudited condensed consolidated financial statements for the nine months ended 30 September 2007 are consistent with those adopted in the annual report of the Company for the year ended 31 December 2006.

2. Turnover

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

	Three months ended		Nine months ended	
	30 September		30 September	
	2007	2006	2007	2006
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Manufacture and sales of household products	132,070	52,563	296,719	113,211
Provision of telephone sets subcontracting services	–	100	–	614
	132,070	52,663	296,719	113,825
Attributable to continuing operation reported in the consolidated income statement	132,070	52,563	296,719	113,211
Telephone sets subcontracting services attributable to discontinued operations	–	100	–	614
	132,070	52,663	296,719	113,825

3. Taxation

No provision for Hong Kong profits tax has been made as the Group has no assessable profit in Hong Kong for the nine months ended 30 September 2007 (nine months ended 30 September 2006: Nil).

The PRC enterprise income tax ("EIT") represents tax charges on the assessable profits of the PRC subsidiaries of the Group at the prevailing tax rates applicable. One of the two PRC subsidiaries of the Group, Langfang Huari Hengyu Home Co., Ltd* (廊坊華日恒宇家居有限公司), which is formerly known as Langfang Hengyu Home Co., Ltd* (廊坊恒宇家居有限公司), is categorised as a foreign investment enterprise and is entitled to preferential tax treatments ("Preferential Tax Treatments") including full exemption from EIT for the initial two years starting from its first profit-making year following by a 50% reduction for the next consecutive three years, and 2007 is its first profit-making year. The other PRC subsidiary of the Group, Lang Fang Tian Feng Home Co., Ltd* (廊坊天豐家居有限公司) is also entitled to Preferential Tax Treatments, 2005 was its first profit-making year, its EIT charge for the nine months ended 30 September 2007 was approximately HK\$977,000 (nine months ended 30 September 2006: Nil).

There was no significant unprovided deferred taxation for the nine months ended 30 September 2007 (nine months ended 30 September 2006: Nil).

Deferred tax had not been provided as there were no significant temporary differences at the period-end date (nine months ended 30 September 2006: Nil).

4. Dividend

No dividend has been paid or declared by the Company for the nine months ended 30 September 2007 (nine months ended 30 September 2006: Nil).

5. Profit per share

The calculation of the basic profit per share is based on the Group's net profit for the nine months ended 30 September 2007 of approximately HK\$75,434,000 (nine months ended 30 September 2006: net profit of approximately HK\$34,745,000), and the weighted average of 586,725,406 ordinary shares (nine months ended 30 September 2006: 119,852,088 ordinary shares) in issue during the nine months ended 30 September 2007 after adjusting the effects of the subscription of new shares on 12 February 2007, the share subdivision on 26 January 2007 and on 12 September 2007. The basic profit per share for the nine months ended 30 September 2006 is adjusted accordingly.

Diluted profit per share for the nine months ended 30 September 2007 and 2006 have not been disclosed as no dilutive events existed during these periods.

6. Segment information

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

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

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

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

Segment liabilities comprise operating liabilities.

Unallocated assets and liabilities comprise items such as corporate borrowings.



(a) *Business segments*

The following tables present revenue, profit and certain asset, liability and expenditure information for the Group's business segments for the nine months ended 30 September 2007 and 2006.

	Continuing		Discontinued		Total	
	Manufacture and sales of household products		Telephone sets subcontracting services			
	2007	2006	2007	2006	2007	2006
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Segment revenue						
Sales to external customers	296,719	113,211	-	614	296,719	113,825
Segment results	97,128	32,751	-	30	97,128	32,781
Interest income and unallocated corporate revenue					611	7,150
Interest expenses and unallocated corporate expenses					(21,328)	(5,186)
Profit before taxation					76,411	34,745
Taxation					(977)	-
Net profit for the period					75,434	34,745

	Continuing		Discontinued		Total	
	Manufacture and sales of household products		Telephone sets subcontracting services			
	2007	2006	2007	2006	2007	2006
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)

Assets and liabilities

Segment assets	294,446	71,488	-	-	294,446	71,488
Corporate and other unallocated assets					1,351	510
Total assets					295,797	71,998
Segment liabilities	44,623	22,557	-	-	44,623	22,557
Corporate and other unallocated liabilities					1,190	18,460
Total liabilities					45,813	41,017

	Continuing		Discontinued		Unallocated		Total	
	Manufacture and sale of household products		Telephone sets subcontracting services					
	2007	2006	2007	2006	2007	2006	2007	2006
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	

Other segment information

Depreciation	10,442	-	-	15	-	-	10,442	15
Capital expenditure	79,511	8	-	-	-	-	79,511	8

(b) *Geographical segments*

During the period under review, the Group's turnover was mainly derived from customers located in the PRC, United States of America ("USA") and European Union. All assets of the Group are located in the PRC (including Hong Kong). Over 85% of the Group's results, assets and capital expenditures are derived from operations carried out in the PRC. Accordingly, no further geographical segment information is presented in the financial statements except for turnover.

	Continuing		Discontinued		Total	
	Manufacture and sales of household products		Telephone sets subcontracting services			
	2007	2006	2007	2006	2007	2006
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Sales						
The PRC	263,315	84,609	-	614	263,315	85,223
USA	7,332	10,832	-	-	7,332	10,832
European Union	25,571	17,644	-	-	25,571	17,644
Others	501	126	-	-	501	126
	296,719	113,211	-	614	296,719	113,825

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

7. **Inventories**

	As at 30 September 2007 HK\$'000 (Unaudited)	As at 31 December 2006 HK\$'000 (Audited)
Raw materials	7,891	319
Work in progress	22,166	22,310
Finished goods	36,938	5,980
	66,995	28,609

8. Trade and bills receivables

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

	As at 30 September 2007 <i>HK\$'000</i> (Unaudited)	As at 31 December 2006 <i>HK\$'000</i> (Audited)
0 – 60 days	11,112	9,215
61 – 90 days	894	260
91 – 180 days	960	245
Over 180 days	853	142
	13,819	9,862

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

9. Prepayments, deposits and other receivables

	As at 30 September 2007 <i>HK\$'000</i> (Unaudited)	As at 31 December 2006 <i>HK\$'000</i> (Audited)
Prepayments	23,826	58,032
Deposits and other receivables	39,983	753
	63,809	58,785
Less: Provision for impairment of other receivables	–	(1)
	63,809	58,784

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

10. Cash and bank balances

	As at 30 September 2007 HK\$'000 (Unaudited)	As at 31 December 2006 HK\$'000 (Audited)
Cash and bank balances	76,927	1,711

At the balance sheet date, the cash and bank balances of the Group denominated in Renminbi ("RMB") amounted to approximately HK\$75,055,000 (as at 30 September 2006: approximately HK\$16,302,000). RMB is not freely convertible into other currencies. However, under the Foreign Exchange Control Regulations and the Administration of Settlement, Sale and Payment of Foreign Exchange Regulations of the PRC, the Group is permitted to exchange RMB for other currencies through banks which are authorised to conduct foreign exchange business.

11. Trade payables

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

	As at 30 September 2007 HK\$'000 (Unaudited)	As at 31 December 2006 HK\$'000 (Audited)
0 – 60 days	13,680	14,081
61 – 90 days	1,465	1,713
91 – 180 days	3,894	2,111
Over 180 days	2,015	446
	21,054	18,351

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

12. Other payables and accrued liabilities

	As at 30 September 2007 HK\$'000 (Unaudited)	As at 31 December 2006 HK\$'000 (Audited)
Other payables	3,981	538
Accruals	1,242	2,733
Provision for claim	670	–
	5,893	3,271

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

13. Share capital*Ordinary shares*

	Par value HK\$	Number of shares '000	Share capital HK\$'000
Authorised:			
At 31 December 2006	0.020	25,000,000	500,000
At 1 January 2007	0.020	25,000,000	500,000
Share subdivision (<i>note i</i>)	0.004	100,000,000	–
Share subdivision (<i>note iii</i>)	0.002	125,000,000	–
At 30 September 2007	0.002	250,000,000	500,000
Issued and fully paid:			
At 31 December 2006	0.020	100,280	2,005
At 1 January 2007	0.020	100,280	2,005
Share subdivision (<i>note i</i>)	0.004	401,120	–
Subscription of shares (<i>note ii</i>)	0.004	100,000	400
Share subdivision (<i>note iii</i>)	0.002	601,400	–
At 30 September 2007	0.002	1,202,800	2,405

- (i) Pursuant to an ordinary resolution passed in the special general meeting held on 26 January 2007, each of the existing issued and unissued shares of the Company of HK\$0.02 each was divided into five (5) subdivided shares of HK\$0.004 each.
- (ii) The Company and a substantial shareholder of the Company, True Allied Assets Limited (the "Vendor"), entered into a placing and subscription agreement dated 31 January 2007 with Guotai Junan Securities (Hong Kong) Limited (the "Placing Agent") pursuant to which (i) the Placing Agent would on a fully underwritten basis procure purchasers to acquire, and the Vendor would sell 100,000,000 then existing shares of the Company at a price of HK\$1.08 per share; and (ii) the Vendor has conditionally agreed to subscribe for such number of new shares equivalent to the number of shares placed, i.e. 100,000,000 new shares at a subscription price of HK\$1.08 each per share.

The placing of then existing 100,000,000 shares to not less than six professional investors was completed on 6 February 2007 at a placing price of HK\$1.08 per share. The subscription of 100,000,000 new shares by the Vendor was completed on 12 February 2007 at a subscription price of HK\$1.08 each. The Company received net proceeds from the subscription of approximately HK\$105,000,000 for the purpose of increasing the general working capital.

- (iii) Pursuant to an ordinary resolution passed in the special general meeting held on 12 September 2007, each of the existing issued and unissued shares of the Company of HK\$0.004 each was divided into two (2) subdivided shares of HK\$0.002 each.

MANAGEMENT DISCUSSION AND ANALYSIS

Financial and business review

For the nine months ended 30 September 2007, the Group recorded a turnover of HK\$296.7 million, representing a substantial growth of 162% as compared to HK\$113.2 million for the same period of last financial year. With the increase in scale of operation, the profit attributable to the shareholders reached HK\$75.4 million, posting a significant increase of 117% as compared to HK\$34.7 million for the same period of last financial year.

- **Furniture manufacturing business**

The manufacturing business of the group for last year as well as the first quarter of this year was mainly operated by 2 solid wood furniture production lines leased from Lang Fang Huari Furniture Joint Stock Co., Ltd. ("Huari Furniture"). By the end of February 2007, the Group has acquired these 2 leased production lines as well as 5 other production lines from Huari Furniture, thus increased the production capacity to 7 production lines. For details of this acquisition, please refer to Company's announcement dated 1 December 2006 and circular dated 3 January 2007.

With the addition in the production lines during the first quarter of this year, the turnover contributed by the furniture manufacturing business increased significantly from HK\$58.6 million in the first quarter, to HK\$103.0 million and HK\$124.9 million in the second quarter and third quarter respectively. With the same number of production lines in place, the 21% growth of turnover from the second quarter to third quarter was mainly attributed to the growing demand of solid wood furniture in the PRC.

During the third quarter of this year, the Group has successfully secured the sales contract for producing over 6,000 wooden doors for the Beijing Olympic Village. The estimated contract sum is over HK\$7 million and expected to be delivered around end of this year. With the continuous expansion in the PRC property market, the Group believes that there is immense business opportunity in the wooden door manufacturing business and thus more emphasis will be done to raise the productivity for wooden doors.

- **Furniture Wholesale and Retail Business**

To achieve the mission of becoming the leading furniture supplier in providing one-stop solution in manufacturing, wholesale and retail business, the Group has completed the first step in diversifying into the furniture retail business through the acquisition of the retail business in Lang Feng Huari Furniture International Exhibition Center (Hall A) in Hebei Province. For details of this acquisition, please refer to the Company's announcement dated 3 April 2007 and circular dated 24 April 2007.

With more effort put on sales and marketing, the turnover contributed by the furniture wholesales and retail business rose from HK\$3.0 million in the second quarter of this year to HK\$7.2 million in the third quarter of this year, representing a significant increase of 135%.

Future Prospect

With the National Day holiday in early October, the turnover contributed by the furniture retail business for the single month of October is greater than that of the whole third quarter. To leverage the experience in successful acquisition of the retail business, the Group has taken active actions in exploring business opportunities and is expecting to undergo large scale acquisitions of retail business. In addition to the inorganic growth through acquisition, the Group is also planning to establish its own retail network to ensure prompt penetration into the market. Upon achieving a sizable retail network, the Group is prepared to allocate more resources to sales and marketing, including the strengthening of the Huari brand as well as the adoption of other brandnames to target different customer segments.

In short to medium term, the Group believes that the furniture manufacturing business will be an important element for the growth in turnover and profitability of the Group. To cope with the expected increase in turnover arisen from the Group's diversification to the furniture wholesale and retail business, the Group has been continuously making steps to improve the productivity level, including fine tuning of the production work flow. In addition, the productivity level of the existing 7 production lines can be significantly raised through the operation of the current one shift to two shifts.

Going forward, the Group is committed to become a leading furniture supplier, providing a comprehensive range of service from production to retailing, through the strategy of using various brandnames to target different customer segments. It is expected that the Group's business will be contributed by production and retail services in similar proportion within three years.

Liquidity and Financial Resources

All the Group's funding and treasury activities are currently managed and controlled by the senior management. There is no significant change in respect of treasury and financing policies from the information disclosed in the Group's latest annual report.

As at 30 September 2007, cash and bank balances of the Group was approximately HK\$76,927,000.

Total borrowing of the Group as at 30 September 2007 amounted to approximately HK\$81,000 (as at 30 September 2006: approximately HK\$29,000), representing obligation under a finance lease contract with an interest rate of approximately 5% per annum and average lease term of approximately five years. Except for the finance lease contract for the Group's office equipment and the Fidelity Funds of approximately HK\$3,000,000 and the deposit HK\$30,000 in name of a subsidiary of the Company, Tedwood International Limited, which has been placed in The Hongkong and Shanghai Banking Corporation Limited ("HSBC") as security for the banking facility granted by HSBC (details have been disclosed in the paragraphs headed "Banking Facilities" below), the Group did not have any mortgage or charge on assets as at 30 September 2007.

As at 30 September 2007, the Group's gearing ratio was approximately 0.022%, representing a percentage of long term liabilities over total assets (as at 30 September 2006: approximately 0.022%).

Banking Facilities

As at 30 September 2007, the Group had available banking facilities from HSBC for an aggregate amount of HK\$2,650,000 (30 September 2006: Nil). Unused facilities as at 30 September 2007 amounted to HK\$2,620,000 (30 September 2006: Nil). These facilities were secured by the Group's Fidelity Funds of approximately HK\$3,000,000 (as at 30 September 2007, the market value of the Fidelity Funds held was approximately HK\$2,786,000) and the deposit HK\$30,000 in name of our subsidiary, Tedwood International Limited, placed in HSBC ("Banking facilities").

Employees Information

As at 30 September 2007, the Group had a number of employees of 196 (as at 30 September 2006: 199). They were remunerated in accordance with their performance and market condition. Other benefits available to eligible employees include retirement benefits and medical insurance schemes.

In addition, from 1 April 2007 onwards, the Group hired an average monthly number of 1,611 workers through the labour service contracts signed by Langfang Huari Hengyu Home Co., Ltd* (廊坊華日恒宇家居有限公司) (“Langfang Huari Hengyu”) and Lang Fang Tian Feng Home Co., Ltd* (廊坊天豐家居有限公司) (“Tian Feng”) with Huari Furniture respectively. The average monthly number of workers hired by Langfang Huari Hengyu and Tian Feng were 1,542 and 69 respectively. The monthly labour service payment to be made by the Group is calculated on the basis of 6.5% over the value of the finished goods warehoused each month. From April 2007 onwards, the average monthly labour service payment made by Langfang Huari Hengyu and Tian Feng was approximately RMB1,522,000 and approximately RMB83,000 respectively. The workers hired through the labour service contracts did not enjoy the benefits available to the eligible employees of the Group.

SHARE OPTION SCHEME

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

The maximum number of shares in respect of which options may be granted under the Share Option Scheme and other schemes of the Company may not, in aggregate, exceed 30% of the issued share capital of the Company from time to time which have been duly allotted and issued. The total number of shares issued and to be issued upon exercise of the options granted (including both exercised and outstanding options) in any 12-month period to each eligible person shall not exceed 1% of the shares in issue. If any further grant of options to such eligible person which would result in the shares issued or to be issued upon exercise of all options granted or to be granted to such eligible person (including exercised, cancelled and outstanding options) in the 12-month period up to and including the date of further grant would exceed 1% of the shares in issue, such grant must be separately approved by shareholders in general meeting, with such eligible person and its associates abstaining from voting. A shareholders’ circular containing the information required by the GEM Listing Rules shall be despatched to the shareholders. An option may be exercised in whole or in part at any time during the Option Period (as defined in the circular of the Company dated 6 May 2002).

The Share Option Scheme became effective for a period of 10 years commencing 24 May 2002 (the date on which the Share Option Scheme was adopted).

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

No options under the Share Option Scheme had been granted to any persons during the period under review and up to the date of this report.

As at 30 September 2007, there were no outstanding options granted under the Share Option Scheme.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Other than the new share option scheme adopted on 24 May 2002, at no time during the period was the Company or any of its subsidiaries a party to any arrangement to enable the Directors to acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate.

As at 30 September 2007, none of the Directors or chief executives of the Company held any share options.

CODE OF CONDUCT REGARDING SECURITIES TRANSACTIONS BY DIRECTORS

During the nine months ended 30 September 2007, the Company had adopted a code of conduct regarding securities transactions by directors on terms no less exacting than the required standard of dealings as set out in Rules 5.48 to 5.67 of the GEM Listing Rules. The Company also had made specific enquiry of all Directors and the Company was not aware of any non-compliance with the required standard of dealings and its code of conduct regarding securities transactions by directors.

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

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

As at 30 September 2007, 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 Rules 5.48 to 5.67 of the GEM Listing Rules were as follows:

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

Name of director	Number of shares held, capacity and nature of interest					Total	Approximate percentage of the Company's total issued share capital
	Directly beneficially owned	Through spouse or minor children	Through controlled corporation	Beneficiary of a trust			
Mr. Li Ge	36,108,000	-	-	-	-	36,108,000	3%

Save as disclosed above, as at 30 September 2007, none of the Directors and chief executives of the Company was, under Divisions 7 & 8 of Part XV of the SFO, taken to be interested or deemed to have any other interests or short positions in the shares, underlying shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) that were required to be entered into the register kept by the Company pursuant to Section 352 of the SFO or were required to be notified to the Company and the Stock Exchange pursuant to the GEM Listing Rules.

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

So far as were known to the Directors or chief executives of the Company, as at 30 September 2007, the following persons (other than the Directors and chief executives of the Company as disclosed above) had interests and/or short position of 5% or more of the shares and underlying shares of the Company as recorded in the register of interests required to be kept by the Company pursuant to Section 336 of the SFO:

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

Name	Nature and capacity of interest	Number of shares held	Approximate percentage of interest <i>(Note 1)</i>
True Allied Assets Limited	Beneficial owner	351,518,000	29.22%
Ms. HUANG Ye-hua <i>(Note 2)</i>	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 <i>(Note 3)</i>	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 <i>(Note 4)</i>	Interest of controlled corporation	60,776,000	5.05%
Mr. Lau Tak Chuen, Airy <i>(Note 5)</i>	Interest of controlled corporation	60,776,000	5.05%

Note:

- (1) The percentage is calculated by dividing the number of shares interested or deemed to be interested by the existing 1,202,799,970 issued shares as at 30 September 2007.
- (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 30 September 2007, the Board is not aware of any other persons, other than the Directors and chief executives of the Company, whose interests are set out in the section headed "Directors' and chief executives' interests and short positions in shares, underlying shares and debentures" above, had interests or short position in the shares or underlying shares of the Company that was required to be recorded pursuant to Section 336 to the SFO.

SHARE SUBDIVISION

By an ordinary resolution approved at the special general meeting held on 26 January 2007, each of the issued and unissued shares of HK\$0.02 each in the share capital of the Company was subdivided into five (5) subdivided shares of HK\$0.004 each. Immediately before the share subdivision, the authorised share capital of the Company was HK\$500,000,000, which was divided into 25,000,000,000 shares of which 100,279,997 shares were in issue. Immediately after the share subdivision, the authorised share capital of the Company was HK\$500,000,000 divided into 125,000,000,000 subdivided shares of which 501,399,985 subdivided shares were in issue.

By an ordinary resolution approved at the special general meeting held on 12 September 2007, each of the issued and unissued shares of HK\$0.004 each in the share capital of the Company was subdivided into two (2) subdivided shares of HK\$0.002 each. Immediately before the share subdivision, the authorised share capital of the Company was HK\$500,000,000, which was divided into 125,000,000,000 shares of which 601,399,985 shares were in issue. Immediately after the share subdivision, the authorised share capital of the Company was HK\$500,000,000 divided into 250,000,000,000 subdivided shares of which 1,202,799,970 subdivided shares were in issue.

PLACING AND SUBSCRIPTION OF NEW SHARES

The Company and a substantial shareholder of the Company, True Allied Assets Limited (the "Vendor"), entered into a placing and subscription agreement dated 31 January 2007 with Guotai Junan Securities (Hong Kong) Limited (the "Placing Agent"), pursuant to which (i) the Placing Agent would on a fully underwritten basis procure purchasers to acquire, and the Vendor would sell 100,000,000 -then existing shares of the Company at a price of HK\$1.08 per share; and (ii) the Vendor conditionally agreed to subscribe for such number of new shares equivalent to the number of shares placed, i.e. 100,000,000 new shares at a subscription price of HK\$1.08 each per share.

The placing of then existing 100,000,000 shares to not less than six professional investors was completed on 6 February 2007 at a placing price of HK\$1.08 per share. The subscription of 100,000,000 new shares by the Vendor was completed on 12 February 2007 at a subscription price of HK\$1.08 each. The Company received net proceeds from the subscription of approximately HK\$105,000,000 for the purpose of increasing the general working capital.

LETTERS OF INTENT

(1) Beijing LOI and Langfang LOI

On 31 January 2007, Langfang Huari Hengyu Home Co., Ltd ("Langfang Huari Hengyu"), an indirect wholly-owned subsidiary of the Company (i) entered into a letter of intent with Beijing Glory Investment Co., Ltd* (北京錦繡投資有限公司) ("Beijing Glory"), setting out the basic understanding between the parties thereto in connection with the proposed acquisition by Langfang Huari Hengyu of the furniture retail business of Beijing Glory in Beijing City ("Beijing LOI"); and (ii) entered into another letter of intent with Huari Furniture setting out the basic understanding between the parties thereto in connection with the proposed acquisition by Langfang Huari Hengyu of the furniture retail business of Huari Furniture in the Hebei Province ("Langfang LOI").

The letters of intent do not constitute the relevant parties' legally binding commitments as to the proposed acquisitions, which are subject to the execution and completion of formal sale and purchase agreements by the relevant parties. However, the letters of intent constitute legally binding obligation on the part of Beijing Glory and Huari Furniture in favour of Langfang Huari -Hengyu under which, inter alia, Beijing Glory and Huari Furniture may not contact, negotiate, discuss, consider or enter into contract, whether directly or indirectly with, any third party (other than the professional advisers of themselves and Langfang Huari Hengyu) in relation to the proposed acquisitions within six months from the date of the letters of intent (subject to extension by agreement of the relevant parties in writing).

On 29 March 2007, Langfang Huari Hengyu entered into a formal sale and purchase agreement with Huari Furniture in respect of the matters contemplated by the Langfang LOI. For details, please refer to the paragraphs headed "Acquisition of Retail Business" below.

As at the date hereof, the terms of the proposed acquisitions in respect of the matters contemplated by the Beijing LOI are still under negotiation and no formal sale and purchase agreement has been concluded yet. The proposed acquisition in respect of the Beijing LOI, if materialize, may or may not constitute notifiable transactions of the Company under Chapter 19 of the GEM Listing Rules and the Company shall comply with the relevant disclosures and/or shareholders' approval requirements of the GEM Listing Rules where appropriate. The proposed acquisition in respect of the Beijing LOI may or may not materialize.

(2) Jixiangniao LOI

On 18 September 2007, Langfang Huari Hengyu entered into a letter of intent with Mr. Liu Qian Jin ("Mr. Liu"), setting out the basic understanding between the parties thereto in connection with proposed acquisition by Langfang Huari Hengyu of the sofa, tea tables and living room furniture manufacture and wholesale business of Jixiangniao Furniture Factory ("Jixiangniao LOI").

The letter of intent do not constitute the relevant parties' legally binding commitments as to the proposed acquisitions, which are subject to the execution and completion of formal sale and purchase agreements by the relevant parties. However, the letter of intent constitute legally binding obligation on the part of Mr. Liu in favour of Langfang Hurai Hengyu under which, inter alia, Mr. Liu may not contact, negotiate, discuss, consider or enter into contract, whether directly or indirectly with, any third party (other than the professional advisers of Mr. Liu and Langfang Huari Hengyu) in relation to the proposed acquisitions within six months from the date of the letters of intent (subject to extension by agreement of the relevant parties in writing).

ACQUISITION OF RETAIL BUSINESS

Langfang Huari Hengyu entered into a formal sale and purchase agreement with Huari Furniture on 29 March 2007, pursuant to which, Langfang Huari Hengyu agreed to acquire all the furniture assets and retail business excluding all the liabilities in Lang Fang Huari Furniture International Exhibition Center (Hall A)* (廊坊華日家居國際展覽中心(A)館) in Hebei Province which is owned and operated by Huari Furniture as at 1 April 2007 (including but not limited to all the contracts, agreements or undertakings signed with any independent third parties and all the rights and benefits derived from them), including the stocks, the renovation in progress and the furniture retail business of Huari Furniture (the "Furniture Retail Business"). The consideration of the acquisition (subject to adjustment) equaled to the audited net profit of the Furniture Retail Business for the twelve months ending 31 March 2008 (the "Audited Net Profit") multiplied by a price-to-earnings ratio of 3 times in the event that the Audited Net Profit is less than RMB10,000,000, or 4 times in the event that the Audited Net Profit is more than or equals to RMB10,000,000 but less than or equals to RMB15,000,000, or 4.9 times in the event that the Audited Net Profit exceeds RMB15,000,000. In the event that the Audited Net Profit exceeds RMB20,000,000, the maximum amount of the consideration payable will equal to RMB20,000,000 multiplied by a price-to-earnings ratio of 4.9 times, that is RMB98,000,000. In any event, the minimum consideration of the Furniture Retail Business shall equal to the net asset value of the Furniture Retail Business as at 22 March 2007 as reported in the asset valuation report for the Furniture Retail Business adopting 22 March 2007 as the reference date and issued by Beijing Zhong Tai Hua Heng Assets Valuation Company Limited* (北京中泰華恒資產評估有限公司), a qualified valuer under the laws and regulations of the PRC and agreed by Langfang Huari Hengyu and Huari Furniture.

Completion of the acquisition of the Furniture Retail Business took place on 2 April 2007.

For further details, please refer to the Company's announcement dated 3 April 2007 and circular dated 24 April 2007.

SUBSEQUENT EVENT

Langfang Huari Hengyu entered into an acquisition agreement with Jixiangniao Furniture Factory and Mr. Liu on 19 October 2007 ("Acquisition Agreement") in respect of the acquisition ("Acquisition") of the business to be acquired under the Acquisition Agreement including (i) the trademark of "吉翔鳥JIXIANGNIAO"; (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 31 December 2007.

The Acquisition is a connected transaction of the Group and is subject to, inter alia, the independent shareholders' approval.

For further details, please refer to the Company's announcement dated 22 October 2007.

CHARGE ON GROUP'S ASSETS

Save as the financial lease contract for the Group's office equipment and the Fidelity Funds of approximately HK\$3,000,000 and the deposit HK\$30,000 in name of our subsidiary, Tedwood International Limited, which has been placed in HSBC as security for the banking facility granted by HSBC (details have been disclosed in the paragraph headed "Banking Facilities" above), the Group did not have any other charge on its assets as at 30 September 2007.

FOREIGN CURRENCY RISK

As most of the Group's monetary assets and liabilities were denominated in Renminbi and Hong Kong dollars, the exchange rate risks of the Group were considered to be minimal. As at 30 September 2007, no related hedges were made by the Group.

CONTINGENT LIABILITIES

On 2 March 2000, an independent third party executed a Deed of Guarantee in favour of Sun-iOMS Maintenance Limited, a former indirect wholly-owned subsidiary disposed of by the Group on 27 July 2006, guaranteeing that the income accrued to Sun-iOMS Maintenance Limited arising from sales of iOMS Millennium Edition Software for a period of 18 months from the date of the guarantee would not be less than HK\$15,000,000. However, the aforesaid independent third party has not fulfilled his commitment under the Deed of Guarantee. Hence, Sun-iOMS Maintenance Limited and the Company took legal action against the abovementioned independent third party and the two executive directors resigned in 2001 ("Ex-executive Directors") in respect of the breach of the Deed of Guarantee and their fiduciary duties accordingly. The Company reached an out of court settlement with the Ex-executive Directors (the "Settlement") on 20 July 2007. In the opinion of the Directors, the financial effect of the Settlement could be ascertained only when the amount of legal costs to be paid, pursuant to the Settlement could be agreed upon or taxed by the Court, the Group has already made a provision of HK\$670,000 (being the amount stated in the draft Bill of Costs dated 14 September 2007 provided by the legal advisors of the Ex-executive Directors) for such legal costs. In the opinion of the Company's special legal advisors in respect of the above litigation, as the matter now stands, there is no other damage suffered by the Company. In the opinion of the Directors, save as the abovementioned provision of HK\$670,000, no other provision for the Group's exposure to the above litigation will be made as at 30 September 2007.

Save as disclosed above, the Group and the Company had no other contingent liabilities at the balance sheet date.

AUDIT COMMITTEE

The Company has established an audit committee in July 2000 with its written terms of reference pursuant to Rules 5.28 to 5.33 of the GEM Listing Rules. Approved by the then directors attending the Board meeting held on 7 December 2006, the terms of reference set out in "A Guide for Effective Audit Committees", published by HKICPA in February 2002, were adopted as written terms of reference for the audit committee of the Company. As at 30 September 2007, the audit committee comprised three members, namely Mr. LEE Yuen Kwong, Mr. YANG Dongli and Mr. YANG Jie, being independent non-executive Directors of the Company.

The primary duties of the audit committee are to review and supervise the financial reporting process and internal control systems of the Group and to provide advice and comments to the Board. The audit committee has reviewed the Group's third quarterly results announcements and reports for the nine months ended 30 September 2007 and provided advice and recommendations to the Board. After the review of the financial statements, the members of the audit committee were of the opinion that such statements comply with the applicable accounting standards, the GEM Listing Rules and other applicable laws and regulations and that adequate disclosure had been made.

CORPORATE GOVERNANCE PRACTICES

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

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

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

- the three independent non-executive Directors form the majority of the five-member Board;
- the Audit Committee is composed exclusively of independent non-executive Directors; and
- the independent non-executive Directors could have free and direct access to the Company’s external auditors and independent professional advice whenever necessary.

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

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

Save as disclosed above, for the nine months ended 30 September 2007, the Company complied with the code and provisions of the CG Code.

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

For the nine months ended 30 September 2007, there was no purchase, sale or redemption by the Company, or any of its subsidiaries, of the Company’s listed securities.

COMPETING INTEREST

None of the Directors or the management shareholders of the Company (as defined in the GEM Listing Rules) or their respective associates had any interest in any business which competed or might compete with the business of the Group for the nine months ended 30 September 2007.

RE-ELECTION OF DIRECTORS

At the annual general meeting of the Company held on 27 April 2007, all the incumbent Directors were re-elected as Directors by the shareholders of the Company.

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

Hong Kong, 8 November 2007

As at the date of this report, the Board comprises of Mr. Li Ge and Mr. ZHAO Guo Wei as executive Directors and Mr. LEE Yuen Kwong, Mr. YANG Dongli and Mr. YANG Jie as independent non-executive Directors.

* *For identification purpose only*

