FAVA International Holdings Limited
名家國際控股有限公司*

(incorporated in Bermuda with limited liability)

(Stock Code: 8108)

ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2007

CHARACTERISTICS OF THE GROWTH ENTERPRISE MARKET ("GEM") OF THE STOCK EXCHANGE OF HONG KONG LIMITED (THE "STOCK EXCHANGE")

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 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 announcement 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.

This announcement, for which the directors (the "Directors") of FAVA International Holdings Limited (the "Company") collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on GEM of the Stock Exchange (the "GEM Listing Rules") for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief: 1. the information contained in this announcement 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 announcement misleading; and 3. all opinions expressed in this announcement have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.

* *For identification purposes only*

ANNUAL RESULTS

The board of directors (the "Board") of the Company is pleased to present the consolidated results of the Company and its subsidiaries (collectively referred to as the "Group") for the year ended 31 December 2007 together with the comparative figures for the year ended 31 December 2006 as follows:

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2007

	Notes	**2007** ***HK$'000***	2006 *HK$'000* (Restated)
Turnover	*5*	**447,814**	160,414
Cost of sales		**(296,060)**	(110,423)
Gross profit		**151,754**	49,991
Other revenue	*5*	**303**	371
Other income	*6*	**1,065**	1,145
Gain on disposal of subsidiaries		**–**	1,158
Fair value changes on financial assets at fair value through profit or loss		**(288)**	–
Fair value loss on derivative liability		**–**	(1,616)
Selling and distribution costs		**(17,193)**	(1,041)
Administrative expenses		**(16,140)**	(7,513)
Other operating expenses		**(416)**	(105)
Profit from operations	*6*	**119,085**	42,390
Finance costs	*7*	**(3)**	(724)
Profit before taxation		**119,082**	41,666
Taxation	*8*	**(984)**	–
Profit for the year from continuing operations		**118,098**	41,666
Discontinued operations			
Profit for the year from discontinued operations		**–**	5,852
Profit for the year attributable to equity holders of the Company		**118,098**	47,518
Earnings per share from continuing and discontinued operations	*10*		
– Basic		**HK9.98 cents**	HK5.69 cents
– Diluted		**HK9.98 cents**	HK5.62 cents
Earnings per share from continuing operations	*10*		
– Basic		**HK9.98 cents**	HK4.99 cents
– Diluted		**HK9.98 cents**	HK4.96 cents

CONSOLIDATED BALANCE SHEET

As at 31 December 2007

	Notes	2007 HK$'000	2006 HK$'000
Non-current assets			
Property, plant and equipment		**76,640**	239
Goodwill		**75,108**	–
Intangible assets		**7,936**	–
Long term prepayments		**14,165**	–
		173,849	239
Current assets			
Inventories		**101,872**	28,609
Trade and bills receivables	*11*	**22,338**	9,862
Prepayments, deposits and other receivables	*12*	**76,396**	58,784
Amount due from a former subsidiary		**–**	51
Pledged bank deposits		**2,799**	–
Cash and bank balances		**55,477**	1,711
		258,882	99,017
Less: Current liabilities			
Trade payables	*13*	**19,394**	18,351
Other payables and accruals		**16,968**	3,271
Receipts in advance		**19,399**	13,677
Amount due to a director		**–**	761
Consideration payable for acquisition – due within one year		**31,556**	–
Obligations under finance lease – due within one year		**16**	13
		87,333	36,073
Net current assets		**171,549**	62,944
Total assets less current liabilities		**345,398**	63,183
Less: Non-current liabilities			
Consideration payable for acquisition – due after one year		**43,552**	–
Obligations under finance lease – due after one year		**61**	13
		43,613	13
Net assets		**301,785**	63,170
Capital and reserves			
Share capital		**2,405**	2,005
Reserves		**299,380**	61,165
Total equity attributable to equity holders of the Company		**301,785**	63,170

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2007

	Attributable to equity holders of the Company						
	Share capital *HK$'000*	**Share premium** *HK$'000*	**Contributed surplus** *HK$'000*	**(Accumulated loss)/ Retained earnings** *HK$'000*	**Exchange reserve** *HK$'000*	**Statutory reserves** *HK$'000*	**Total equity** *HK$'000*
At 1 January 2006	1,421	26,650	36,527	(70,734)	(140)	–	(6,276)
Exchange differences arising from translation of financial statements of subsidiaries	–	–	–	–	1,114	–	1,114
Total income for the year recognised in equity	–	–	–	–	1,114	–	1,114
Disposal of subsidiaries	–	–	(527)	–	140	–	(387)
Profit for the year	–	–	–	47,518	–	–	47,518
Total income and expense for the year	–	–	(527)	47,518	1,254	–	48,245
Transfer to reserve	–	–	–	(7,388)	–	7,388	–
Premium arising from issue of new shares	–	20,734	–	–	–	–	20,734
Issue of shares	584	–	–	–	–	–	584
Share issue expenses	–	(117)	–	–	–	–	(117)
At 31 December 2006 and 1 January 2007	2,005	47,267	36,000	(30,604)	1,114	7,388	63,170
Exchange differences arising from translation of financial statements of subsidiaries	–	–	–	–	15,606	–	15,606
Total income for the year recognised in equity	–	–	–	–	15,606	–	15,606
Profit for the year	–	–	–	118,098	–	–	118,098
Total income and expense for the year	–	–	–	118,098	15,606	–	133,704
Transfer to reserve	–	–	–	(18,391)	–	18,391	–
Premium arising from issue of new shares	–	107,600	–	–	–	–	107,600
Issue of shares	400	–	–	–	–	–	400
Share issue expenses	–	(3,089)	–	–	–	–	(3,089)
At 31 December 2007	**2,405**	**151,778**	**36,000**	**69,103**	**16,720**	**25,779**	**301,785**

NOTES:

1. CORPORATE INFORMATION

FAVA International Holdings Limited (the "Company") is a limited liability company incorporated in Bermuda. The registered office and the principal place of business of the Company are disclosed in "Corporate Information" section of the annual report.

The principal activity of the Company is investment holding. During the year, the principal activity of the Group was manufacture and sale of household products.

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")

The Hong Kong Institute of Certified Public Accountants (the "HKICPA") has issued certain new standards, amendments and interpretations to existing standards have been published that are mandatory for accounting periods beginning on or after 1 January 2007. A summary of the effect on initial adoption of these new and revised HKFRSs is set out below.

HKAS 1 (Amendment)	Presentation of Financial Statements: Capital Disclosures
HKFRS 7	Financial Instruments: Disclosures
HK(IFRIC) – Int 7	Applying the Restatement Approach under HKAS 29 Financial Reporting in Hyperinflationary Economies
HK(IFRIC) – Int 8	Scope of HKFRS 2
HK(IFRIC) – Int 9	Reassessment of Embedded Derivatives
HK(IFRIC) – Int 10	Interim Financial Reporting and Impairment

The adoption of above new/revised HKFRSs except HKAS 1 (Amendment) and HKFRS 7 did not result in substantial changes to the Group's accounting policies and has no material impact on the Group's financial statements.

The Group has applied the disclosure requirements under HKAS 1 (Amendment) and HKFRS 7 retrospectively. Certain information presented in prior year under the requirements of HKAS 32 has been removed and the relevant comparative information based on the requirements of HKAS 1 (Amendment) and HKFRS 7 has been presented for the first time in the current year.

The Group has not early applied the following new and revised standards or interpretations that have been issued but are not yet effective.

HKAS 1 (Revised)	Presentation of Financial Statements [1]
HKAS 23 (Revised)	Borrowing Costs [1]
HKFRS 8	Operating Segments [1]
HK(IFRIC) – Int 11	HKFRS 2 – Group and Treasury Share Transactions [2]
HK(IFRIC) – Int 12	Service Concession Arrangements [3]
HK(IFRIC) – Int 13	Customer Loyalty Programmes [4]
HK(IFRIC) – Int 14	HKAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction [3]

[1] Effective for annual periods beginning on or after 1 January 2009
[2] Effective for annual periods beginning on or after 1 March 2007
[3] Effective for annual periods beginning on or after 1 January 2008
[4] Effective for annual periods beginning on or after 1 July 2008

The directors of the Company anticipate that the application of these new and revised standards or interpretations will have no material impact on the results and the financial position of the Group.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

These financial statements have been prepared in accordance with HKFRSs (which also include Hong Kong Accounting Standards ("HKASs") and Interpretations) issued by the HKICPA, accounting principles generally accepted in Hong Kong, the disclosure requirements of the Hong Kong Companies Ordinance and applicable disclosure provisions of the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited ("GEM Listing Rules"). These financial statements are presented in Hong Kong dollars and all values are rounded to the nearest thousand except when otherwise indicated.

The preparation of financial statements in conformity with HKFRSs requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making judgments about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates. The estimates and assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates is revised if the revision affects only that period, or in the period of revision and future periods if the revision affects both current and future periods.

Judgments made by management in the application of HKFRSs that have significant effect on the financial statements and estimates with a significant risk of material adjustments in the next year are discussed in Note 4 to the annual report.

A summary of significant accounting policies adopted by the Group in the preparation of the financial statements is set out below:

Basis of preparation

The measurement basis used in the preparation of the financial statements is historical cost convention.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the year ended 31 December 2007. Adjustments are made to bring into line any dissimilar accounting policies that may exist. The results of subsidiaries are consolidated from the date of acquisition, being the date on which the Group obtains control, and continues to be consolidated until the date the such control ceases. All significant intercompany transactions and balances within the Group are eliminated on consolidation.

The acquisition of subsidiaries during the year has been accounted for using the purchase method of accounting. This method involves allocating the cost of the business combinations to the fair value of the identifiable assets acquired, and liabilities and contingent liabilities assumed at the date of acquisition. The cost of the acquisition is measured at the aggregate of the fair value of the asset given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition.

4. SEGMENT INFORMATION

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

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

(i) Continuing operations

- indirect retail of household products and others; and
- direct retail of household products.

(ii) Discontinued operation – the telephone sets sale and subcontracting services business segment was discontinued during the year ended 31 December 2006.

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

(a) Business segments

The following tables present revenue, profit and certain asset, liability and expenditure information for the Group's business segments of the continuing operations and the discontinued operation for the years ended 31 December 2006 and 2007.

	Continuing				Discontinued			
	Direct retail of household products		Indirect retail of household products and others		Telephone sets sale and subcontracting services		Total	
	2007	2006	**2007**	2006	**2007**	2006	**2007**	2006
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Segment revenue:								
Sales to external customers	**31,845**	–	**415,969**	160,414	**–**	614	**447,814**	161,028
Segment results	**12,064**	–	**115,937**	45,852	**–**	5,852	**128,001**	51,704
Interest income and unallocated gains							**265**	2,303
Corporate and other unallocated expenses							**(9,181)**	(5,765)
Finance costs							**(3)**	(724)
Profit before taxation							**119,082**	47,518
Taxation							**(984)**	–
Profit for the year							**118,098**	47,518
Assets and liabilities								
Segment assets	**18,625**	–	**335,801**	98,603	**–**	–	**354,426**	98,603
Corporate and other unallocated assets							**78,305**	653
Total assets							**432,731**	99,256
Segment liabilities	**6,060**	–	**47,338**	33,868	**–**	–	**53,398**	33,868
Corporate and other unallocated liabilities							**77,548**	2,218
Total liabilities							**130,946**	36,086

	Continuing				Discontinued					
	Direct retail of household products		Indirect retail of household products and others		Telephone sets sale and subcontracting services		Unallocated		Total	
	2007	2006	**2007**	2006	**2007**	2006	**2007**	2006	**2007**	2006
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Other segment information										
Depreciation	**1,143**	–	**9,794**	11	**–**	20	**56**	32	**10,993**	63
Amortisation of intangible assets	**–**	–	**2,054**	–	**–**	–	**–**	–	**2,054**	–
Capital expenditure	**3,048**	–	**78,043**	233	**–**	–	**125**	–	**81,216**	233
Provision for impairment of of trade receivables	**–**	–	**304**	179	**–**	–	**–**	–	**304**	179

(b) Geographical segments

During the year, the Group's turnover was mainly made to customers located at the PRC, USA and European Union. All assets are located in the PRC (including Hong Kong). Over 90% 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			
	Direct retail of household products		Indirect retail of household products and others		Telephone sets sale and subcontracting services		Total	
	2007	2006	**2007**	2006	**2007**	2006	**2007**	2006
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Sales								
The PRC	**31,845**	–	**371,779**	125,242	**–**	614	**403,624**	125,856
USA	**–**	–	**8,791**	3,618	**–**	–	**8,791**	3,618
European Union	**–**	–	**34,894**	30,995	**–**	–	**34,894**	30,995
Others	**–**	–	**505**	559	**–**	–	**505**	559
	31,845	–	**415,969**	160,414	**–**	614	**447,814**	161,028

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

5. TURNOVER AND OTHER REVENUE

The Group's turnover represents the net invoiced value of household products sold, after allowances for returns and trade discounts, during the year.

An analysis of the Group's turnover and other revenue is as follows:

	The Group	
	2007	2006
	HK$'000	*HK$'000*
Turnover:		
Indirect retail of household products and others	**415,969**	160,414
Direct retail of household products	**31,845**	–
Provision of telephone sets subcontracting services	**–**	614
	447,814	161,028
Attributable to continuing operations reported in the consolidated income statement	**447,814**	160,414
Telephone sets sale and subcontracting services attributable to discontinued operations	**–**	614
	447,814	161,028
Other revenue:		
Bank interest income	**303**	–
Commission income	**–**	371
	303	371

6. PROFIT FROM OPERATIONS

The Group's profit from operations is arrived at after charging:

	The Group	
	2007	2006
	HK$'000	*HK$'000*
Cost of inventories sold	**296,060**	110,423
Cost of services provided	**–**	583
Fair value changes on financial assets at fair value through profit or loss	**288**	–
Auditors' remuneration	**500**	300
Amortisation of intangible assets	**2,054**	–
Depreciation on owned property, plant and equipment	**10,964**	54
Depreciation on property, plant and equipment held under finance lease	**29**	9
	10,993	63
Minimum lease payments under operating leases:		
Plant and machinery	**3,968**	2,142
Land and buildings	**1,473**	1,198
Trademark	**–**	579
	5,441	3,919
Employee benefits expense (excluding directors' remuneration):		
Wages, salaries and other allowances	**21,986**	4,962
Pension scheme contributions	**36**	14
	22,022	4,976
Provision for impairment of trade receivables	**304**	179
Provision for impairment of other receivables	**–**	1

	The Group 2007 HK$'000	2006 HK$'000
and after crediting:		
Gain on disposal of subsidiaries	**–**	7,874
Other income:		
Waiver of amount due to a former associate	**–**	1,124
Reversal of provision for impairment of trade receivables	**179**	–
Exchange gain	**249**	–
Sundry income	**632**	–
Gain on disposal of property, plant and equipment	**5**	21
	1,065	1,145

7. FINANCE COSTS

	The Group 2007 HK$'000	2006 HK$'000
Interest on convertible notes	**–**	722
Interest on obligations under finance leases	**3**	2
Total interest	**3**	724

8. TAXATION

No provision for Hong Kong profits tax has been made during the year as the Group has no assessable profits arising in Hong Kong (2006: Nil).

Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in places in which the Group operates, based on existing legislation, interpretations and practices in respect thereof (2006: Nil).

No provision for Hong Kong profits tax or PRC income tax has been made for the discontinued operations as the companies comprising the discontinued operations had no assessable profit during the year ended 31 December 2006.

9. DIVIDEND

No dividend has been declared or proposed by the directors of the Company in respect of the year ended 31 December 2007 (2006: Nil).

10. EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY

The calculation of basic earnings per share amounts is based on the profit for the year attributable to ordinary equity holders of the Company, and the weighted average number of ordinary shares in issue during the year, as adjusted to reflect the share subdivision effective on 26 January 2007 and 12 September 2007 during the year.

There was no diluting event existed during the year ended 31 December 2007.

The calculation of diluted earnings per share amounts for the year ended 31 December 2006 is based on the profit for the year ended 31 December 2006 attributable to ordinary equity holders of the Company, adjusted to reflect the interest on the convertible notes and fair value loss on derivative liability, where applicable (see below). The weighted average number of ordinary shares used in the calculation is the number of ordinary shares in issue during the year, as used in the basic earnings per share calculation, and the weighted average number of ordinary shares assumed to have been issued on conversion of all dilutive potential ordinary shares into ordinary shares.

The calculations of basic and diluted earnings from continuing and discontinued operations per share are based on:

	2007	2006
	HK$'000	*HK$'000*
Earnings		
Profit attributable to ordinary equity holders of the Company, used in the basic earnings per share calculation	**118,098**	47,518
Interest on convertible notes *(note 7)*	**–**	722
Fair value loss on derivative liability	**–**	1,616
Profit attributable to ordinary equity holders of the Company before interest on convertible notes and fair value loss on derivative liability	**118,098**	49,856

	2007	2006
	'000	*'000*
		(Restated)
Number of shares		
Weighted average number of ordinary shares in issue during the year used in the basic earnings per share calculation	**1,183,074**	835,174#
Effect of dilution – weighted average number of ordinary shares:		
Convertible notes issued on 28 July 2006	**–**	51,780#
	1,183,074	886,954

\# *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 were subdivided into five subdivided shares of HK$0.004 each. 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 were subdivided into two subdivided shares of HK$0.002 each. As such the weighted average number of ordinary shares in issue during the year ended 31 December 2006 used in the basic and diluted earnings per share calculation is restated to 835,174,000 and 886,954,000 respectively.*

The calculation of basic and diluted earnings per share from continuing operations are based on:

	2007	2006
	HK$'000	*HK$'000*
Earnings		
Profit for the year from continuing operations, attributable to ordinary equity holders of the Company, used in the basic earnings per share calculation	**118,098**	41,666
Interest on convertible notes *(note 7)*	**–**	722
Fair value loss on derivative liability	**–**	1,616
Profit attributable to ordinary equity holders of the Company before interest on convertible notes and fair value loss on derivative liability	**118,098**	44,004

The denominators used are the same as those detailed above for basic earnings per share from continuing and discontinued operations.

11. TRADE AND BILLS RECEIVABLES

The average credit period on sales of goods is 30 days. In view of the fact that the Group's trade and bills receivables relate to a large number of diversified customers, there is no significant concentration of credit risk. Trade and bills receivables are non-interest bearing.

	The Group	
	2007	2006
	HK$'000	*HK$'000*
Trade receivables	**21,407**	2,178
Bills receivables	**1,253**	7,863
	22,660	10,041
Less: Provision for impairment of trade receivables	**(322)**	(179)
	22,338	9,862

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

As at 31 December 2007, the Group's trade receivables of HK$304,000 (2006: HK$179,000) were individually determined to be impaired. The individual impaired receivables related to customers that were in financial difficulties and management assessed that the receivables were not expected to be recovered. The Group does not hold any collateral over these balances.

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

	The Group	
	2007	2006
	HK$'000	*HK$'000*
0 – 30 days	**11,931**	8,065
31 – 60 days	**6,096**	1,150
61 – 90 days	**1,320**	260
91 – 180 days	**967**	245
Over 180 days	**2,024**	142
	22,338	9,862

12. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	The Group	
	2007	2006
	HK$'000	*HK$'000*
Prepayments	**70,495**	58,032
Deposits and other receivables	**5,902**	753
	76,397	58,785
Less: Provision for impairment of other receivables	**(1)**	(1)
	76,396	58,784

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

13. TRADE PAYABLES

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

	The Group	
	2007	2006
	HK$'000	*HK$'000*
0 – 30 days	**9,140**	9,181
31 – 60 days	**3,889**	4,900
61 – 90 days	**1,434**	1,713
91 – 180 days	**4,181**	2,111
Over 180 days	**750**	446
	19,394	18,351

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

BUSINESS REVIEW

The Group has delivered another year of encouraging results which confirms our right direction of disposing of the unprofitable information technology business in 2006 and strategic move to become a leading one-stop solid wood furniture players in designing, manufacturing and retailing business in the PRC.

The Group has successfully completed several acquisitions in 2007. The acquisitions are very favourable to the Group, offering relatively low price-to-earnings as total consideration, high financial flexibility on settlement items as well as high degree of comfort to the Group's future profitability. By taking full advantages from the acquisitions, the Group has further strengthened its core competencies and thus created a strong foundation for future growth and profitability.

ACQUISITION OF THE SOLID WOOD FURNITURE MANUFACTURING BUSINESS OF HUARI

In February 2007, the Group has acquired 2 leased production lines as well as 5 new production lines from Lang Fang Huari Furniture Joint Stock Co. Ltd. ("Huari Furniture"), thus increased the production capacity to 7 production lines located in Langfang city, Hebei Province. Upon the completion of acquisition, all the solid wood production facilities under Huari Furniture have been acquired up by our Group, making FAVA one of the leading solid wood furniture suppliers in the PRC.

Most of large scale solid wood furniture suppliers located in the northern China because of the climate and humidity requirement for processing solid wood. With capital intensive in nature and requiring special workmanship in the production process, the management does not aware of any large-scale new entrant due to high entry barrier of solid wood furniture manufacturing business.

By acquiring the solid wood furniture production facilities from Huari Furniture, the Group has become one of the largest solid wood furniture suppliers in the PRC and gained immediate access to indirect retail business through nationwide distribution network which comprise more than 500 franchised shops distributing exclusively the Huari products in 26 provinces. Accredited as a "China's Famous Brand Name" and "China's Top Brand", Huari brand products are highly recognized in the furniture market, particularly the northern part of China. By targeting the middle-to-high end market segments with less price sensitive, the Group's products have stronger bargaining power, less cost exposure and higher flexibility to raise the retail selling price due to the material cost increment.

ACQUISITION OF THE RENOWNED FABRIC FURNITURE BRAND "JIXIANGNIAO"

In October 2007, the Group acquired the Jixiangniao furniture brand and its manufacturing business from Jixiangniao Furniture Factory in China. The acquisition of Jixiangniao is in line with the Group's business objective to provide comprehensive services on its production and retail operation. It enables the Group to diversify product portfolio into fabric furniture business and expand retail network in a strategic manner. It is expected that the contribution of turnover and profit to the Group will be started from 2008.

NEW AVENUES OF REVENUE THROUGH VALUE CHAIN INTEGRATION

PRC indirect retail sales

In the PRC, there are more than 500 franchised shops selling exclusively Huari products. Located mainly in large furniture malls spread throughout 26 provinces, the size of these shops range from 300 to 500 square meters. Each shop normally displays and sells one of the 5 series of Huari brand solid wood furniture. The customers usually make order by placing around 10% deposit to the franchised shops. The detail of the customer's order is then promptly passed to our factory in Langfang and we commit to make delivery of the ordered stock to the franchisees within 15 days. Our sales to the franchised shop are normally on a cash-on-delivery basis.

PRC direct retail sales

In March 2007, the Group has successfully diversified our business to direct furniture retail business through the acquisition of the furniture asset and retail business in Lang Fang Huari Furniture International Exhibition Center (Hall A). Occupying an area of more than 6,900 square meters, all the different styles of Huari solid furniture are nicely and systematically displayed in model rooms and villas. As Langfang city is located midway between Beijing and Tianjin, the furniture exhibition center attracts a lot of retail customers from Beijing and Tianjin. With the increasing efforts spent on sales and marketing, the turnover contributed by PRC direct retail sales increases from HK$3 million in the second quarter of year 2007, to HK$ 7 million and HK$ 21 million in the 3rd and 4th quarter respectively. Expanding into the retail business not only enable the Group to form an integrated business chain from designing to manufacturing and retailing but also allow us to access into the high-margin retail business.

PRC sales to different projects

During this year, the Group has made certain wholesales of wooden doors to property development projects. In the PRC, most of the residential apartments are sold as an empty shell and doors are not included. Therefore, the management believes that there is an immense business opportunity of future co-operation with property developers on sales of wooden doors. In addition, the Group intends to use this as an entry point to attract a cash cow area of home furnishing, including putting the Huari products in the show flats of the property development and sending our people to do sales pitching work on the site.

Export sales

Wholesales to overseas customers accounts for around 10% of the Group's total turnover. The major portion is sold to European Union customers and a minor part to the USA and others. Compared to the PRC sales, the competition for export sales is fiercer and the gross profit margin is lower. In view of the expected strong growth of the economy in the PRC, the Group will be more focused to deliver the PRC market and therefore the export sales segment is expected to decrease in the coming years.

PROSPECT

2007 is an important milestone for the Group. We have made a big step to become a leading one-stop furniture service provider, including designing, manufacturing and retail, through a number of value-added acquisitions.

Our solid wood furniture business is mainly targeting China's emerging mid and upper class population as well as those health-conscious customers who have great concern on the relatively high content of cancer-causing formaldehyde in the panel wood furniture. Therefore, we believe the demand for solid wood furniture will continue to experience strong growth in the coming years. To ensure that we can ripe the benefit from the increasing pie, we have been taking active steps to increase our productivity level as well as putting more efforts in sale and marketing since second half of 2007.

Leveraging our position as leading solid wood manufacturer selling famous Huari brand products, there are strong bargaining powers for new franchisees to negotiate favourable terms for setting up stores in many home furniture malls. As such, we are planning to further expand the franchised network of Huari brand products in the coming years. To further widen the Group's retail presence, we will also establish more self-owned flagship stores and outlets that will exclusively sell products carrying the Huari brand. We believe that this strategy will facilitate our efforts to fully meet the needs of end-users and quickly capture the booming solid wood furniture market while maximizing shareholder value through higher returns. To capture the higher retail profit margin, the Group is also in active discussion with some existing franchisees regarding the acquisitions of their retail shops. In particular, the Group has entered a number of letter of intents in respect of a proposed acquisition of 92 furniture retail shops in January 2008. In accordance to these, formal sales and purchase agreement has been signed to acquire 20 profitable shops located in Shanghai, Chengdu, Chongqing and Dalian in February 2008. Further acquisitions of remaining 72 retail shops will also be expected in the coming few months.

The management believes that the PRC furniture is highly fragmented without dominant player in the market. Due to the fierce competition in the furniture market, the management believes that the industry consolidation has been continued to take place in coming few years. As such, the management will continue to make every effort to enhance operational efficiency and become a market consolidator by acquiring other potential furniture players as one of the way of strengthening our product mix and distribution network.

Looking ahead, the Group has strived to become one of the leading integrated furniture players through the provision of a comprehensive range of services from designing, manufacturing to retailing business in the PRC.

FINANCIAL REVIEW

With the additional production lines acquired during the first quarter of 2007, the turnover achieved significant growth from HK$58.7 million in the first quarter, to HK$106 million, HK$132 million, HK$151.1 million in the 2nd quarter, 3rd quarter and 4th quarter respectively. With the same number of production lines starting from the second quarter, the increase in turnover is mainly attributed to the growing demand of solid wood furniture from indirect sales channels.

As a result, the Group generated approximately HK$447.8 million in total revenue, representing a growth of 179.2% as compared with the corresponding period of 2006.

The turnover can be further analyzed as follow:

	2007		2006		
	HK$ million	**%**	*HK$ million*	%	*Growth*
PRC indirect retail sales	**364.7**	**81%**	125.2	78%	190.2%
PRC direct retail sales	**31.8**	**7%**	–	–	
PRC sales to different projects	**7.1**	**2%**	–	–	–
Export sales	**44.2**	**10%**	35.2	22%	27.1%
Total	**447.8**	**100%**	160.4	100%	

With the growth in turnover, the total gross profit for 2007 increased to HK$151.8 million as compared to HK$50 million in 2006. The gross profit margin of both direct and indirect retail sales are comparatively higher than those of PRC project sales and export sales. The overall gross profit margin increased from 31.2% in 2006 to 33.9% in 2007.

Including in the cost of production, the cost of timber and lacquer accounts for around 40% and 25% respectively and cost has increased by around 8% to 10% as compared to last year. However, the company's middle to upper end positioning and strong brand name of Huari allow it to pass much of the price pressure to the franchises, and in turn to the end customers, as consumers are less price sensitive in this segment. As compared to other low-end furniture makers suffering squeeze in profit margin, our increase in gross profit margin is very encouraging.

With remarkable performances in sales and market growth in results of the successful acquisition projects, the Group achieved record breaking net profits of HK$118.1 million compared to HK$47.5 million in the previous year, representing year-on-year growth of 148.5%.

SIGNIFICANT INVESTMENTS AND MATERIAL ACQUISITIONS AND DISPOSALS

Significant investments and material acquisitions made by the Group during the year ended 31 December 2007 are listed as follows:

(a) On 29 November 2006, an indirect wholly-owned subsidiary of the Company, 廊坊天豐家居有限公司(Lang Fang Tian Feng Home Co., Ltd., for identification purpose only), entered into the conditional sales and purchase agreement with 廊坊華日家具股份有限公司(Lang Fang Huari Furniture Joint Stock Co., Ltd, for identification purpose only) ("Huari Furniture") and 廊坊天誠家具有限公司 (Lang Fang Tian Cheng Furniture Co., Ltd., for identification purpose only), for acquisition of certain machineries and equipment for the manufacturing of furniture (the "Acquisition") at a total consideration of RMB75,398,100. The Acquisition constitutes a very substantial acquisition of the Company under Chapter 19 of the GEM Listing Rules and was subject to the approval of the independent shareholders. The Acquisition was approved by an ordinary resolution at a special general meeting held on 26 January 2007.

For details, please refer to the Company's circular dated 3 January 2007. As at the date of this announcement, the Acquisition has been completed.

(b) On 31 January 2007, 廊坊恒宇家居有限公司 (Lang Fang Hengyu Home Co., Ltd, for identification purpose only) ("Langfang Hengyu"), an indirect wholly-owned subsidiary of the Company (i) entered into a letter of intent with 北京錦繡投資有限公司 (Beijing Glory Investment Co., Ltd, for identification purpose only) ("Beijing Glory"), setting out the basic understanding between the parties thereto in connection with proposed acquisition by Langfang Hengyu of the furniture retail business of Beijing Glory in Beijing City; 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 Hengyu of the furniture retail business of Huari Furniture in the Hebei Province.

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 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 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).

As at the date of this announcement, the acquisition by Langfang Hengyu of the furniture retail business of Huari Furniture in the Hebei Province has been materialized in March 2007, for further details please refer to part (c) in the following. No formal sales and purchase agreement has been signed for the proposed acquisition by Langfang Hengyu of the furniture retail business of Beijing Glory in Beijing city, as the abovementioned binding period of six months has expired, this proposed acquisition was not materialized.

(c) Langfang Hengyu entered into a formal sale and purchase agreement with Huari Furniture on 29 March 2007, pursuant to which, Langfang 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)* (廊坊華日家具國際展覽中心(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 multiplied by a price-to-earnings ratio of 3 to 4.9 times.

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.

(d) Langfang 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.

For further details, please refer to the Company's announcement dated 22 October 2007 and circular dated 12 November 2007.

POST BALANCE SHEET EVENTS

(a) On 7 January 2008, the Group has entered into letters of intent with (1) Mr. Zhou Xu En, (2) Mr. Xiu Xianliu, (3) Mr. Cheng Pishuang, (4) Mr. Pan Yongsheng and (5) Mr. Wu Kemin for the proposed acquisition of the furniture retail business of a total of 92 furniture retail shops in the PRC which are distributing furniture products of Huari brand. The letters of intent set out the basic understanding between the parties of the proposed acquisition. The proposed consideration is to be determined with reference to the audited net profits for the year ending 31 December 2008 of the relevant target business, multiplied by a certain price-to-earnings ratio ranging from 4 to 6 times with a cap set on the audited net profits for the year ending 31 December 2008 of each target business. With an aggregate cap of RMB50,200,000 set on the aggregate audited net profits for the year ending 31 December 2008 of each target business, the aggregate consideration for the proposed acquisitions will not exceed RMB301,200,000. For further details, please refer to the Company's announcement dated 8 January 2008.

(b) On 18 February 2008, the Group and Mr. Xiu Xianliu entered into an acquisition agreement, pursuant to which the Group conditionally agreed to acquire certain furniture retail business at a consideration equal to the audited net profits of the aforesaid business for the year ending 31 December 2008 multiplied by: (i) 3 times in the event that the audited net profits for the year ending 31 December 2008 is less than RMB7,000,000; or (ii) 3.5 times in the event that the audited net profits for the year ending 31 December 2008 is more than or equals to RMB7,000,000 but less than or equals to RMB9,000,000; or (iii) 4 times in the event that the audited net profits for the year ending 31 December 2008 exceed RMB9,000,000. For the purpose of calculating the consideration, if the audited net profits exceeds RMB9,000,000, it will be capped at RMB12,000,000. In other words, the consideration will not exceed RMB48,000,000 in any event. For further details, please refer to the Company's announcement and circular dated 19 February 2008 and 7 March 2008 respectively.

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. For further details, please refer to the Company's announcements dated 29 December 2006, 26 January 2007, and circular dated 5 January 2007.

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. For further details, please refer to the Company's announcement dated 16 August 2007 and circular dated 23 August 2007.

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.

For further details, please refer to the Company's announcements dated 2 February 2007, 6 February 2007 and 12 February 2007.

LIQUIDITY AND FINANCIAL RESOURCES

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

As at 31 December 2007, cash and bank balances of the Group was approximately HK$55,477,000 (2006: HK$1,711,000), approximately 99% of the Group's cash was dominated in Renminbi and 1% of the Group's cash was dominated in Hong Kong Dollars. The exposure to exchange fluctuation was minimal.

The Group has no bank borrowings throughout the year under review.

As at 31 December 2007, total borrowing of the Group amounted to approximately HK$77,000 (2006: HK$26,000), representing obligation under a finance lease contract with an interest rate of approximately 5% per annum and average lease term of approximately five years.

EMPLOYEE AND REMUNERATION POLICY

As at 31 December 2007, the Group had employed 6 staffs in Hong Kong and 226 staffs in PRC (as at 31 December 2006: 4 staffs in Hong Kong and 437 staffs in PRC), they were remunerated in accordance with their performance and market condition. Other benefits available to eligible employees include retirement benefits and medical insurance schemes. Total staff costs for the year 2007 amounted to approximately HK$5,964,000 (2006: approximately HK$4,285,000).

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

In addition, from 1 April 2007 onwards, the Group hired an average monthly number of 2,104 workers through the labour service contracts signed by Langfang Huari Hengyu Home Co., Ltd* (廊坊華日恒宇家居有限公司) ("Langfang Hengyu") 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 Hengyu and Tian Feng were 2,035 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 Hengyu and Tian Feng was approximately HK$1,742,000 and approximately HK$85,000 respectively. The workers hired through the labour service contracts did not enjoy the benefits available to the eligible employees of the Group.

CHARGE ON GROUP ASSETS

Save as the finance lease contract for the Group's office equipment and the bank deposits of approximately HK$2,799,000 as security for the banking facilities granted to the Group, the Group did not have any other charge on its assets as at 31 December 2007 (2006: Nil).

GEARING RATIO

As at 31 December 2007, the Group's gearing ratio was 10% representing a percentage of long term liabilities over total assets (2006: 0.01%), and the net current assets was HK$171,549,000 (2006: HK$62,944,000).

FOREIGN CURRENCY EXPOSURE

As most of the Group's transactions are denominated in Renminbi, Hong Kong dollar and US dollar, the Directors believe that the exposure to exchange fluctuation was not material and the Group has not implemented any formal hedging or other alternative policies to deal with such exposure.

CONTINGENT LIABILITIES

As at 31 December 2007, the Group has the following 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 has 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 cost. 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 31 December 2007.

Save as disclosed above, the Group had no other contingent liabilities at 31 December 2007.

SECURITIES TRANSACTIONS BY DIRECTORS

During the year ended 31 December 2007, the Company had followed the required standard of Directors' dealings as set out in Rules 5.48 to 5.67 of the GEM Listing Rules. The Company had also made specific enquiry of all Directors and the Company had not been notified of any non-compliance with the required standard of dealings regarding securities transactions by Directors.

BOARD OF DIRECTORS

The Board comprises five Directors, of whom two are executive Directors (one is the chairman and chief executive officer of the Company), and three are independent non-executive Directors. The participation of independent non-executive Directors in the Board brings independent judgement on issues relating to the Group's strategy, performance, conflicts of interest and management process to ensure that the interests of all shareholders of the Company have been duly considered.

The Board members during the year ended 31 December 2007 were:

Executive Directors
Mr. Li Ge *(Chairman and Chief Executive Officer)*
Mr. Zhao Guo Wei

Independent non-executive Directors
Mr. Lee Yuen Kwong
Mr. Yang Dongli
Mr. Yang Jie

The independent non-executive Directors should be responsible for making independent decisions in relation to the matters such as strategy, performance, conflict of interest and management process of the Group, in order to ensure the interest of the shareholders as a whole has been considered properly. Furthermore, in accordance with the requirement of the GEM Listing Rules, the audit committee was chaired by an independent non-executive Director with appropriate accounting qualifications and professional experiences.

The Board considers that all of the independent non-executive Directors are independent and has received from each of them the annual confirmation of independence required by the Section 5.09 of the GEM Listing Rules.

The Board is responsible for the approval and monitoring of the Group's overall strategies and policies; approval of business plans; evaluating the performance of the Group and oversight of the management. It is also responsible for promoting the success of the Company and its businesses by directing and supervising the Company's affairs.

The Board focuses on overall strategies and policies with particular attention paid to the growth and financial performance of the Group.

The Board delegates day-to-day operations of the Group to executive Directors and senior management, while reserving certain key matters for its approval. Decisions of the Board are communicated to the management through the executive Directors who attend Board meetings.

There is no relationship (whether financial, business, family or other material/relevant relationships) among the members of the Board.

CORPORATE GOVERNANCE REPORT

The Company is committed to achieving high standards of corporate governance and following the principles set out in the Code on Corporate Governance Practices for GEM listed companies as set out in Appendix 15 of the GEM Listing Rules (the "CG Code"). During the year, save as disclosed hereunder, the Company complied with and did not deviate from the code provisions as set out in the CG Code:

Code Provision A.2.1

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

– 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 CG Code. 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 industry experience. 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 will seek for proper candidate to serve as the chief executive officer of the Company.

REMUNERATION COMMITTEE

The remuneration committee comprises the three independent non-executive Directors, namely Mr. Lee Yuen Kwong (Chairman), Mr. Yang Jie and Mr. Yang Dongli.

The principal functions include:

– to recommend to the Board on the Company's policies and structure for the remuneration of the directors and senior management of the Group;

– to determine the remuneration packages of all executive Directors and senior management of the directors and senior management of the Group;

– to review and approve their performance-based remuneration.

The principal elements of executive remuneration package include basic salary, discretionary bonus and share option. The emoluments of executive Directors are based on skill, knowledge and involvement in the Company's affairs of each director and are determined by reference to the Company's performance and profitability, as well as remuneration benchmark in the industry and the prevailing market conditions.

The remuneration committee consults the chairman and chief executive officer about its proposals relating to the remuneration of other executive Directors. The remuneration committee decisions were approved by way of written resolutions passed by all the committee members. A resolution in writing signed by all the committee members shall be as valid and effectual as if it had been passed at a meeting of the remuneration committee duly convened and held.

During the year, the Remuneration Committee has held 2 meetings to review the existing remuneration packages of the existing executive directors and senior management of the Company, and to recommend the remuneration packages for the existing executive directors and senior management of the Company. All three committee members have attended all the 2 meetings.

NOMINATION OF DIRECTORS

The Company does not establish a nomination committee. The Board is empowered under the Company's bye-laws to appoint any person as a director either to fill a casual vacancy on or, subject to authorization by the shareholders of the Company in general meeting, as an additional member of the Board. Qualified candidates will be proposed to the Board for consideration and the selection criteria are mainly based on the assessment of their professional qualifications and experience. The Board selects and recommends candidates for directorship having regard to the balance of skills and experience appropriate to the Group's business.

During the year ended 31 December 2007, because there is no change in board membership, the Board has no meeting for the nomination of directors.

AUDIT COMMITTEE

The Audit Committee was established on 7 July 2000 to review the Group's financial reporting, internal controls and make relevant recommendations to the Board.

The Audit Committee comprises the three independent non-executive Directors, namely Mr. Lee Yuen Kwong, Mr. Yang Dongli and Mr. Yang Jie. The chairman of the Audit Committee is Mr. Lee Yuen Kwong.

The Audit Committee held four meetings in 2007, which were attended by all three members. The Group's 2007 quarterly reports, 2007 half-yearly report, 2007 annual results and 2007 annual report have been reviewed by the Audit Committee, which was of the opinion that such reports and results were prepared in accordance with the applicable accounting standards and requirements. The committee also monitored the Company's progress in implementing the code provisions of corporate governance practices as required under the GEM Listing Rules.

ACCOUNTABILITY AND INTERNAL CONTROLS

The Directors acknowledge their responsibility for preparing all information and representations contained in the consolidated financial statements of the Company for the year under review. As at 31 December 2007, the Directors have conducted a review of the effectiveness of the system of internal control of the Group and are not aware of any material uncertainties relating to events or conditions which may cost significant doubt upon the ability of the Company to continue as a going concern basis.

COMMUNICATIONS WITH SHAREHOLDERS

The Board communicates with the shareholders through the annual general meetings and special general meetings. In compliance with the requirements of GEM Listing Rules, the Company issued regular reports, announcements, circulars, notice of general meetings. Shareholders can get the latest information of the Company through these publications of the Company.

To offer accurate information to investors and shareholders on a timely and fair disclosure basis, a series of public events were hosted by directors and senior management right after results announcements. These served as interactive platforms for the management to address questions from investors and the media.

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

During the year ended 31 December 2007, the Company has not redeemed any of its shares. Save and except the placing of shares mentioned under the paragraphs headed "Placing and Subscription of New Shares" in this announcement, neither the Company nor any of its subsidiaries purchased or sold any of the Company's listed securities during the year under review.

On behalf of the Board
Li Ge
Executive Director

Hong Kong, 25 March 2008

As at the date of this announcement, the Board comprises Mr. Li Ge and Mr. Zhao Guo Wei as executive Directors, and Mr. Lee Yuen Kwong, Mr. Yang Jie and Mr. Yang Dongli as independent non-executive Directors.

This announcement will remain on the GEM website at http://www.hkgem.com on the "Latest Company Announcements" page for at least seven days from the day of its posting.