* For identification purpose only

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

Annual Report
2007

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CORPORATE INFORMATION

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Mr. Zhao Guo Wei

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Mr. Yang Dongli
Mr. Yang Jie

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Mr. Chan Yuk Hiu, Taylor

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Mr. Lee Yuen Kwong *(Chairman)*
Mr. Yang Dongli
Mr. Yang Jie

REMUNERATION COMMITTEE

Mr. Lee Yuen Kwong *(Chairman)*
Mr. Yang Dongli
Mr. Yang Jie

COMPLIANCE OFFICER

Mr. Li Ge

AUTHORISED REPRESENTATIVES

Mr. Li Ge
Mr. Zhao Guo Wei

COMPANY SECRETARY

Mr. Chan Yuk Hiu, Taylor

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Chartered Accountants
Certified Public Accountants
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Central,
Hong Kong

GEM STOCK CODE

8108

PRINCIPAL BANKERS

The Hongkong and Shanghai Banking Corporation Limited
Hang Seng Bank Limited

Our Mission:

To become one of the leading solid wood furniture suppliers in the PRC

FAVA International Holdings Limited is committed towards becoming a leading integrated furniture supplier from production to retailing, and it is expected that the Company will gain equal contribution from its production and retail business in the near future.

To achieve our objective, we carry out the following business strategies:
– Strengthen existing leading China market presence in solid wood furniture business
– Expand retail business through acquisition and organic store expansion
– Execute multi-brand strategy in the future and enhance our existing brands equity of Huari and Jixiangniao in the coming two years
– Improve profitability and balance sheet

OUR CORE VALUES

Production Capacity

Upon the completion of acquisition of production lines from Huari Furniture and Jixiangniao Furniture Factory, our production lines will be increased to 8 and our productivity level will be further enhanced and strengthened.

Extensive Retail Network

Upon the completion of the acquisition of the 20 solid wood furniture retail shops in the PRC, we will have 20 self-owned stores, approximately 470 franchised stores and 1 flagship store. Meanwhile, upon the completion of the acquisition of Jixiangniao, an additional of 80 franchised shops will be included into the Group.

Brand Recognition

We distribute our solid wood furniture products of Huari brand. The brand accredited “China’s Famous Brand Name” & “China’s Top Brand”.

Strong Financial Position

We have a proven track record of record-breaking revenue and net profit with year-on-year growth of 179.2% and 148.5% respectively.

CORPORATE PROFILE

FAVA International Holdings Limited ("FAVA" or "the Company") is the leading solid wood furniture supplier in the PRC. Carrying a brand portfolio covering solid wood furniture brand Huari and fabric furniture brand Jixiangniao, the Company is a large-scale integrated business engaged in furniture designing, manufacturing and retailing with its production based in Langfang city, Hebei Province, the PRC.

The Company aims to develop into a comprehensive enterprise providing a blend of production and retailing services. From comprehensive furniture design service to furniture production and assembly to delivery and installation, the Company positions itself as a leading and integrated solid-wood furniture supplier among all market players.

The Company develops a diversify series of product with different styles to cater customers' needs. The Modern Orient series show the aesthetics of the Chinese culture which is simple and elegant, stylish and graceful; The Greenwich series emphasize on comfort and fine details with natural wood color scheme, simple and clean lines; The Norway Forest series are natural and primitive; California Sunny is line of primarily light shaded furniture; and Sunny Mediterranean Sea is line of combination of western succinctness and eastern softness which express an idea of Space, Nature and Home.

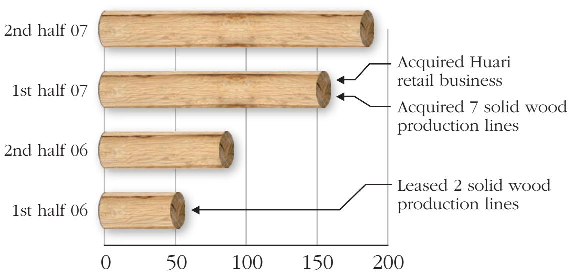
Besides providing different stylish designs, the Company aims at increasing market penetration by expanding its retail network. In 2007, the Company has signed sales and purchase agreements according to three significant acquisitions including the acquisition of the retail business in Lang Fang Huari International Exhibition Center (Hall A) in Hebei Province and the acquisition of renowned fabric furniture brand "Jixiangniao" and its manufacturing and franchising business. As of today, the Company has a nationwide coverage of 500 retail shops branded "Huari". Among all, 20 of them are self-owned shops, over 470 of them are franchised shops and 1 of them is flagship store.

In addition to the 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 multiple brand names to target different customer segments.

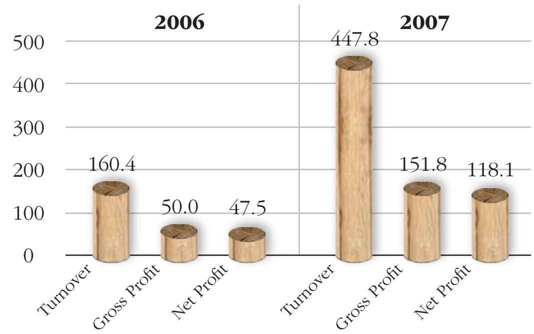
FINANCIAL HIGHLIGHTS

Net profit grew by **+148.5%**

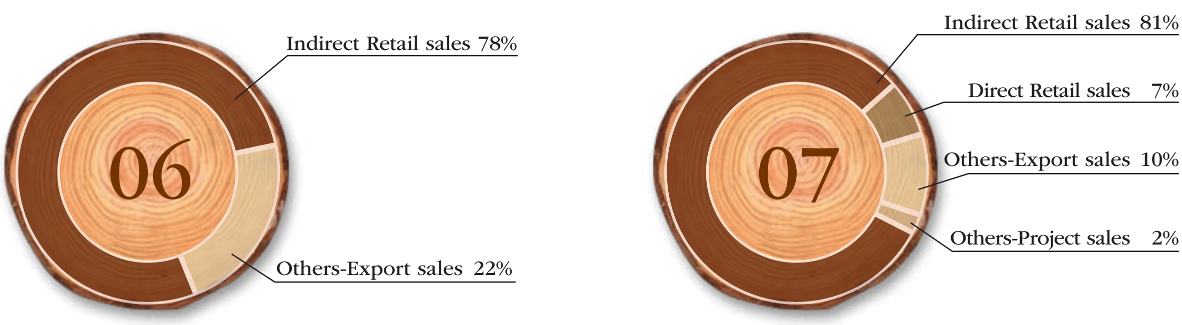
Turnover
(HK$ Million)



Turnover and Profit
(HK$ Million)

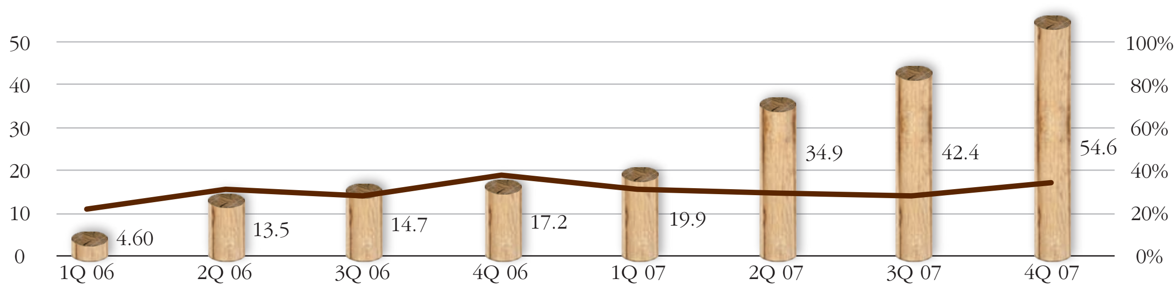


Group's turnover



Gross Profit
(HK$ Million)

GP Ratio



RETAIL NETWORK IN CHINA

Over 500 Shops in China

CORPORATE MILESTONES

1995-2008

Huari obtained the Grade A Certificate from General Administration of Quality supervision, Inspection and Quarantine of P.R.C. for 13 consecutive years.

2005

Jun

(before the Group's commencement of furniture business): "Huari" brand was awarded as "China's Famous Brand Name" and "China's Top Brand".

2006

Oct

Changed the register name of the Company to "FAVA International Holdings Limited".

2007

Jan/Feb

Acquired 7 production lines from Lang Fang Huari Furniture Joint Stock Company Limited.

Feb

Placing shares – new issue of 100 million shares at a price of HK$1.08 per share, raised a net proceed of HK$105 million.

Huari brand was accredited "China's Famous Brand Name" and "China's Top Brand"

2007

Mar/Apr

Completed the first step in value chain integration and expansion into the furniture direct retail business through the acquisition of the retail business in Lang Fang Huari Furniture International Exhibition Center (Hall A) in Hebei Province.

Oct

Acquired renowned fabric furniture brand "Jixiangniao" and its manufacturing and franchise business from Jixiangniao Furniture Factory.

Dec

Achieved record-breaking turnover of approximately HK$447.8 million and net profit of HK$118.1 million for the year ended 31 December 2007.

2008

Jan

Entered a number of letter of intents for the proposed acquisition of 92 furniture retail shops under Huari brand in the PRC.

Mar

Acquired 20 profitable solid wood furniture retail shops under Huari brand located in Dalian, Chongqing, Chengdu and Shanghai, the PRC at a range of three to four times of price-to-earning depending on the audited net profit of these retail shops for the year ending 31 March 2009.

Production Plant and Production Facilities in Langfang

Lang Fang Huari Furniture International Exhibition Centre (Hall A)

Trademark Registration of Jixiangniao

Retail Store

CHAIRMAN'S STATEMENT

Dear Shareholders

On behalf of the Board of Directors (the "Board"), I am pleased to report the annual results of FAVA International Holdings Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") for the fiscal year ended 31 December 2007.

BUSINESS AND FINANCIAL OVERVIEW

Year 2007 was one year of robust growth for the Group. The Group successfully completed three important acquisitions, two of them relating to the "Huari" solid wood brand furniture business and the other to the "Jixiangniao" brand of fabric furniture.

As a result of economic growth remaining consistently strong in the PRC in 2007, the demand for furniture and household products in the country continued to rise. In particular, there was an impressive increase in demand for the high-quality solid wood furniture products for which the Huari brand is synonymous. Thus, the Group successfully recorded a turnover of approximately HK$447.8 million for the year ended 31 December 2007 (2006: HK$160.4 million), representing a year-on-year growth of 179.2%, while net profit attributable to shareholders reached HK$118.1 million, posting a significant increase of 148.5% as compared to HK$47.5 million in 2006.

CHAIRMAN'S STATEMENT

ACQUISITIONS DURING THE YEAR

In January 2007, we acquired 7 production lines from Lang Fang Huari Furniture Joint Stock Co. Ltd. so as to strengthen the production capacity of our high-quality solid wood furniture. Upon completion of this acquisition, the Group became one of the largest solid wood furniture suppliers in the PRC and had a retail network of more than 500 franchisees. Located in 26 provinces across the country, the franchisees are mainly found in large furniture malls and exclusively sell Huari-branded solid wood furniture.

In March 2007, the Group successfully put into motion our plans for value chain integration and extended business platform from solid wood furniture manufacturing plus franchise business to direct retail operations when we acquired retail business in Lang Fang Huari Furniture International Exhibition Center (Hall A). Expanding into the retail business has enabled the Group to not only become a fully integrated enterprise that encompasses the design, manufacture and retail of furniture but also enjoy the higher margins that exist in the retail sector.

In October 2007, in order to broaden our product variety as well as further strengthen our branding and sales network, the Group acquired the trademark, manufacturing and franchising network of the Jixiangniao Furniture Factory in the PRC, which specializes in items for the living room. This acquisition is in line with our strategy of developing the Group into a comprehensive enterprise that provides a blend of furniture production and retailing services under an array of renowned brands. The acquisition was completed on 1 January 2008.

PROSPECTS

In January 2008, the Group signed letters of intent with various parties with regard to acquiring the businesses of a total of 92 furniture retail shops in the PRC that sell Huari furniture products to consumers. While formal sales and purchase agreements for 20 shops were completed in February, the remaining acquisitions are expected to be finalized in the coming few months. We believe that these acquisitions will provide the Group with an integrated platform for quickly solidifying our leading market position.

In addition to further expansion of nationwide franchise network through franchising strategy, we are planning to widen the Group's retail presence organically by establishing 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.

In the short to medium-term, we believe that the Group's furniture manufacturing business will continue to be an important element for growth in terms of both turnover and profitability. To cope with the increased turnover that will arise from the Group's expansion strategies, we have been making timely and prudent steps towards improving productivity levels, including fine-tuning the production work flow and re-engineering of production team. Moreover, the daily production capacity of the Group's seven existing lines can be significantly raised, if necessary, by operating two shifts daily as opposed to one.

CHAIRMAN'S STATEMENT

Going forward, the Group is committed towards becoming a leading integrated furniture supplier through the provision of a comprehensive range of services from production to retailing. Also, in order to fully meet the requirements of different customer segments, the Group will continue to employ the strategy of selling our products under multiple brand names. By enhancing our capabilities in production and retailing through a series of successful acquisitions in last two years, we are now firmly established as the leading retailer and supplier in solid wood furniture market in the PRC. Leveraging on its renowned brand name, strong management expertise and nationwide sales network, we are confident that the Group will continue to achieve remarkable returns for shareholders.

I would like to thank all shareholders and Board members for their unswerving support and confidence. I also express my sincere gratitude to our customers and business partners for their continued support, as well as to my colleagues and staff for all their dedication, loyalty and excellence.

Li Ge
Chairman and Chief Executive Officer
Hong Kong, 25 March 2008

MANAGEMENT DISCUSSION AND ANALYSIS

MANAGEMENT DISCUSSION AND ANALYSIS

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 Group'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 annual report, 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 annual report, 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 the 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.

MANAGEMENT DISCUSSION AND ANALYSIS

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 Huari 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 madeby 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.

BIOGRAPHICAL DETAILS OF DIRECTORS AND COMPANY SECRETARY

EXECUTIVE DIRECTORS

Mr. Li Ge, aged 40, was appointed as an executive director of the Company on 31 August 2006. He obtained a diploma in financial accountancy and a diploma in law from Hebei University, after that, he obtained a master of science in engineering from Wuhan Industry University (currently known as Wuhan University of Technology). Past experience includes being the CFO of Beijing Zhengyou Network & Communication Technology Co., Limited, and the executive director and senior consultant of Lang Fang Huari Furniture Joint Stock Co. Limited ("Huari Furniture"). Mr. Li has experience in the management of PRC listed company and Hong Kong listed company, and in the management of production and sales of household products in China. Mr. Li became a member of Chinese Institute of Certified Public Accountants in 1994, and is now a senior consultant of Beijing China Regal United Certified Public Accountants. Mr. Li has joined our Group since March 2006, he now holds directorship in Alwin Asia Investment Limited and Tedwood International Limited which are a directly wholly-owned subsidiary and a indirectly wholly-owned subsidiary of the Company respectively.

Mr. Zhao Guo Wei, aged 46, was appointed as an executive director of the Company on 6 July 2006. He obtained a diploma in accountancy from Shandong China Accounting Postal Tuition School, and has over twenty years of experience in management of household products manufacturing including production flow path control and production cost control. Past experience includes being the General Manager of Quality Control Department of Huari Furniture. Mr. Zhao is now the Vice General Manager of Lang Fang Tian Feng Home Co. Limited. Lang Fang Tian Feng Home Co. Limited is an indirectly wholly-owned subsidiary of the Company.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Lee Yuen Kwong, aged 48, was appointed as an independent non-executive director of the Company on 12 June 2006. He graduated at University of Sunderland, England, he is a fellow member of the Association of Chartered Certified Accountants and a fellow member of the Hong Kong Institute of Certified Public Accountants. Mr. Lee is now a director of Lynks CPA Limited, he has over twenty years of experience in accountancy and financial management. Mr. Lee is also a member of the Audit Committee and Remuneration Committee of the Company.

Mr. Yang Dongli, aged 36, was appointed as an independent non-executive director of the Company on 1 September 2005. He is formerly a Production Department Manager and Senior Engineer in Beijing D&G Machinery Co., Limited. Mr. Yang graduated in Air Industrial University North of China majoring in Management Engineering. Mr. Yang has over 11 years working experience. Mr. Yang is also a member of the Audit Committee and Remuneration Committee of the Company.

BIOGRAPHICAL DETAILS OF DIRECTORS AND COMPANY SECRETARY

Mr. Yang Jie, aged 27, was appointed as an independent non-executive director of the Company on 30 June 2006. He is now an engineer of Technical Service Support Department of Epson (China) Co., Limited. Mr. Yang graduated from Beijing Petrochemistry Institute majoring in Process Equipment and Control Engineering, he has over two years of working experience. In addition, Mr. Yang has taken the training course on Human Resources Management and Listed Company Regulations held by Ren Ming University, and has also taken the training course on Business Administration held by Qing Hua University. Mr. Yang is also a member of the Audit Committee and Remuneration Committee of the Company.

COMPANY SECRETARY

Mr. Chan Yuk Hiu, aged 31, is an associate member of the Hong Kong Institute of Certified Public Accountants and the Association of Chartered Certified Accountants, he has worked in certified public accountants firms and participated in various audit and accounting works. He has over seven years experiences in professional accounting practices. Mr. Chan is also the qualified accountant of the Company.

REPORT OF THE DIRECTORS

The Directors have pleasure in presenting their report and the audited financial statements of FAVA International Holdings Limited (hereinafter referred to as the "Company") and its subsidiaries (hereinafter referred to as the "Group") for the year ended 31 December 2007.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. Details of the principal activities of its subsidiaries are set out in note 20 to the financial statements. There were no significant changes in the nature of the Group's principal activities during the year.

SEGMENTAL INFORMATION

An analysis of the Group's turnover and contribution by principal business segments during the year are set out in note 6 to the financial statements.

RESULTS AND DIVIDENDS

The Group's profit for the year ended 31 December 2007 and the state of affairs of the Company and the Group at the balance sheet date are set out in the financial statements on pages 44 to 46.

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

SUMMARY FINANCIAL INFORMATION

A summary of the published results and assets, liabilities and minority interests of the Group for the last five financial years, as extracted from the audited financial statements and restated/reclassified as appropriate, is set out on pages 115 to 116. This summary does not form part of the audited financial statements.

PROPERTY, PLANT AND EQUIPMENT

Details of movements in the property, plant and equipment of the Company and the Group during the year are set out in note 17 to the financial statements.

SHARE CAPITAL, SHARE OPTIONS AND CONVERTIBLE NOTES

Details of movements in the Company's share capital and share options during the year are set out in notes 31 and 32 to the financial statements respectively.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's bye-laws or the laws of Bermuda which would oblige the Company to offer new shares on a pro rata basis to its existing shareholders.

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

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

RESERVES

Details of movements in the reserves of the Company and the Group during the year are set out in note 33 to the financial statements and in the consolidated statement of changes in equity, respectively.

DISTRIBUTABLE RESERVES

As at 31 December 2007, the Company has no reserves available for distribution, calculated in accordance with the provisions of the Bermuda Companies Act 1981 and the Company's bye-laws.

MAJOR CUSTOMERS AND SUPPLIERS

In the year under review, sales to the Group's five largest customers accounted for 31.6% of the total sales for the year and sales to the largest customer included therein amounted to 15.7%. Purchases from the Group's five largest suppliers accounted for 24.2% of the total purchases for the year and purchases from the largest supplier included therein amounted to 8.5%.

None of the Directors or any of their associates or any shareholders (which, to the best knowledge of the Directors, own more than 5% of the Company's issued share capital) had any beneficial interest in the Group's five largest customers or suppliers.

DONATION

The donation made by the Group during the year amounted to approximately RMB200,000 (2006: Nil).

PENSION SCHEMES

Particulars of the Group's pension schemes are set out in note 3 to the financial statements.

DIRECTORS

The Directors of the Company during the year were:

Executive Directors:

Mr. Li Ge
Mr. Zhao Guo Wei

Independent non-executive Directors:

Mr. Lee Yuen Kwong
Mr. Yang Dongli
Mr. Yang Jie

REPORT OF THE DIRECTORS

In accordance with bye-laws 86(2) and 87(1) of the Company's bye-laws, Messrs. Li Ge, Zhao Guo Wei, Lee Yuen Kwong, Yang Dongli and Yang Jie will retire by rotation and, being eligible, offer themselves for re-election at the forthcoming annual general meeting.

The Company has received annual confirmations of independence from Mr. Lee Yuen Kwong, Mr. Yang Dongli, and Mr. Yang Jie, and as at the date of this report still considers them to be independent.

BIOGRAPHICAL DETAILS OF DIRECTORS AND COMPANY SECRETARY

Biographical details of the Directors and the company secretary of the Company are set out on pages 26 to 27 of the annual report.

DIRECTORS' SERVICE CONTRACTS

The independent non-executive Directors, Mr. Lee Yuen Kwong, Mr. Yang Dongli and Mr. Yang Jie, are appointed for an initial term of one year renewable by mutual agreement in writing two months in advance to the expiry of the initial term of appointment for successive terms of one year.

No Director proposed for re-election at the forthcoming annual general meeting has a service contract with the Company which is not determinable by the Company within one year without payment of compensation, other than statutory compensation.

DIRECTORS' REMUNERATION

The Directors' fees are subject to shareholders' approval at general meetings. Other emoluments are determined by the Company's board of Directors with reference to Directors' duties, responsibilities and performance and the results of the Group.

Details of the Directors' remunerations are set out in note 11 to the financial statements.

DIRECTORS' INTERESTS IN CONTRACTS

No Director had a material interest, either directly or indirectly, in any contract of significance to the business of the Group to which the Company or any of its subsidiaries was a party during the year.

As at 31 December 2007, none of the Directors had any direct or indirect interest in any assets which were acquired or disposed of by, or leased to, the Company or any of its subsidiaries, or are proposed to acquired or disposed of by, or lease to, the Company or any of its subsidiaries.

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 31 December 2007, there are no outstanding options was granted under the Share Option Scheme.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Save as disclosed under the heading of "Directors' and chief executive's interests and short positions in shares, underlying shares" below and the share option scheme as disclosed above, at no time during the year were rights to acquire benefits by means of the acquisition of shares in or debentures of the Company granted to any director or their respective spouse or minor children, or were any such rights exercised by them; or was the Company or any of its subsidiaries a party to any arrangement to enable the Directors of the Company to acquire such rights in any other body corporate.

INTEREST DISCLOSURE AS PER REGISTERS KEPT PURSUANT TO THE SECURITIES AND FUTURES ORDINANCE ("THE SFO")

(a) Directors' and chief executive's interests and short positions in shares and underlying shares

As at 31 December 2007, the interests and short positions of the Directors and chief executive in the share capital, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (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 the Directors as referred to in Rules 5.46 to 5.67 of the GEM Listing Rules were as follows:

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

	Number of shares held, capacity and nature of interest					
Name of director	Directly beneficially owned	Through Spouse or minor children	Through controlled corporation	Beneficiary of a trust	Total	Percentage of the Company's total issued share capital
Mr. Li Ge	36,108,000	–	–	–	36,108,000	3.00%

Save as disclosed above, as at 31 December 2007, none of the Directors and chief executive of the Company was, under Divisions 7 & 8 of Part XV of the SFO, taken to be interested or deemed to have any other interests of short positions in shares, underlying shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO), that were required to be entered into the register kept by the Company pursuant to Section 352 of the SFO or were required to be notified to the Company and the Stock Exchange pursuant to the GEM Listing Rules.

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

As at 31 December 2007, the following interests and/or short positions of 5% or more of the issued share capital of the Company were recorded in the register of interests required to be kept by the Company pursuant to Section 336 of the SFO:

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

Name	*Notes*	**Capacity and nature of interest**	**Number of ordinary shares held**	**Percentage of the Company's issued share capital** *(Note 1)*
True Allied Assets Limited		Beneficial owner	351,518,000	29.22%
Ms. Huang Ye-hua	*2*	Interest of controlled corporation	351,518,000	29.22%
Mr. Zhou Xu En		Beneficial owner	109,082,430	9.07%
Citigroup Inc.		Person having a security interest in shares	71,568,000	5.95%
Sino Hope Investments Limited		Beneficial owner	69,953,330	5.82%
Mr. Zhao Jiangong	*3*	Interest of controlled corporation	69,953,330	5.82%
INVESCO Hong Kong Limited		Investment manager	61,000,000	5.07%
Fair China Focus Fund Limited		Beneficial owner	60,776,000	5.05%
Fair Investment Management Limited	*4*	Interest of controlled corporation	60,776,000	5.05%
Mr. Lau Tak Chuen, Airy	*5*	Interest of controlled corporation	60,776,000	5.05%
Deutsche Bank Aktiengesellschaft		Beneficial owner	60,200,000	5.00%

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 31 December 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 31 December 2007, no person, other than the directors and chief executive of the Company, whose interests are set out in the section "Directors' and chief executive's interests and short positions in shares and underlying shares" above, had registered an interest or short position in the shares or underlying shares of the Company that was required to be recorded pursuant to Section 336 of the SFO.

SUFFICIENCY OF PUBLIC FLOAT

Based on information that is publicly available to the Company and within the knowledge of the Directors, at least 25% of the Company's total issued share capital was held by the public as at the date of this report.

DIRECTORS' INTERESTS IN A COMPETING BUSINESS

During the year and up to the date of this report, none of the directors of the Company or their respective associates has any interest in a business which competes or might compete with the business of the Group.

EXPOSURE IN EXCHANGE RATE FLUCTUATIONS

Since the functional currencies of the Group's operations are HK Dollars and RMB, the Board considers that the exchange rate risk of the Group is minimal.

BOARD PRACTICES AND PROCEDURES

The Company has complied with the board practices and procedures as set out in rule 5.34 of the GEM Listing Rules during the year under review.

POST BALANCE SHEET EVENTS

Details of the significant post balance sheet events of the Group are set out in note 41 to the financial statements.

AUDIT COMMITTEE

The Company set up an Audit Committee (the "Committee") on 7 July 2000 with written terms of reference being in compliance with Rules 5.28 to 5.33 of the GEM Listing Rules. Approved by the 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 Hong Kong Institute of Certified Public Accountants in February 2002, were adopted as written terms of reference for the Audit Committee of the Company. As at 31 December 2007, the Committee comprises three members, namely Mr. Lee Yuen Kwong, Mr. Yang Dongli and Mr. Yang Jie, all of them being independent non-executive Directors of the Company.

The primary duties of the 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, and had held meeting for several times during the year. The Group's financial statements for the year ended 31 December 2007 have been reviewed by the members of the Committee, who were of the opinion that such statements complied with the applicable accounting standards, the Stock Exchange and legal requirements, and that adequate disclosures had been made.

AUDITORS

Messrs. HLB Hodgson Impey Cheng and Messrs Cheung & Siu, Certified Public Accountants ("CS") were appointed as joint auditors of the Company on 21 March 2005 in succession to Messrs RSM Nelson Wheeler which resigned on 27 January 2005.

Messrs Cheung & Siu, Certified Public Accountants which resigned as joint auditors of the Company on 20 November 2006. There have been no other changes of auditors in the past three years.

Messrs HLB Hodgson Impey Cheng retire, and being eligible, offer themselves for re-appointment. A resolution for the re-appointment of Messrs HLB Hodgson Impey Cheng as auditors of the Company will be proposed at the forthcoming annual general meeting.

On behalf of the Board
Mr. Li Ge
Executive Director

Hong Kong
25 March 2008

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 in the paragraphs headed "Chairman and the Chief Executive Officer" (Code Provision A.2.1) below, the Company complied with and did not deviate from the code provisions as set out in the CG Code.

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.

The Board held 22 meetings in 2007. Details of the attendance of the Board are as follows:

Name of Directors	**Meetings attended/held**	**Attendance rate**
Executive Directors		
Mr. Li Ge *(chairman and chief executive officer)*	22/22	100%
Mr. Zhao Guo Wei	22/22	100%
Independent non-executive Directors		
Mr. Lee Yuen Kwong	21/22	95%
Mr. Yang Dongli	21/22	95%
Mr. Yang Jie	21/22	95%

The following matters were discussed in the board meetings held in 2007:

(1) to approve the authorised signatories or the amendments to the authorised signatories of the holding company's bank accounts;

(2) to consider and approve share subdivisions of the Company;

(3) to approve the additional capital injections in subsidiaries;

(4) to approve Top-up placing and relevant issues;

(5) to consider abnormal movements in share price and trading volume of the Company;

(6) to consider and approve the dates for Audit Committee meetings and Board meetings;

(7) to consider and approve the quarterly, interim and annual results of the Group;

(8) to consider and approve the acquisition of furniture retail business of Hall A from Huari Furniture;

(9) to consider and approve the remuneration of the Independent Non-executive directors of the Company;

(10) to review the documents from Listing Division of the Stock Exchange and authorise a representative to attend the disciplinary hearing in relation to two former executive directors (for further details, please refer to regulatory announcement by Stock Exchange dated 22 November 2007);

(11) to consider and approve the acquisition of manufacturing and wholesale business of Jixiangniao Furniture Factory.

All directors were given at least 14 days notice for a regular board meeting. Agenda and relevant documents of the meeting was given to all the Directors before the date of the regular board meeting; the initial draft of the minutes of the board meeting was sent to the Directors for reviewing and providing comments; and the final draft of the minutes will be sent to the Directors for signature and records.

Directors can access to the company secretary or the intermediary for advices with a view to ensuring that board procedures and all applicable rules and regulations are followed. The minutes of board meeting were kept by the company secretary, and such minutes were opened for inspection at any reasonable time on reasonable notice by any Director.

CHAIRMAN AND THE CHIEF EXECUTIVE OFFICER (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.

APPOINTMENTS, RE-ELECTION AND REMOVAL

Each of the independent non-executive Directors was appointed of an initial term of one year renewable by mutual agreement in writing two months in advance prior to the expiry of the initial term appointment for successive terms of one year. Each of the Directors is subject to retirement by rotation and re-election at the annual general meeting of the Company in accordance with the bye-laws 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 director 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.

AUDITORS' REMUNERATION

An amount of approximately HK$500,000 (2006: HK$300,000) was charged to the Group's income statement for the year ended 31 December 2007 as auditors' fee.

The nature of audit and non-audit services provided by HLB Hodgson Impey Cheng ("HLB") and fees paid to HLB set out below:

	To HLB
	HK$'000
Audit services	500
Tax	8
Other services	139
	647

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.

The statement of the external auditors of the Company about their reporting responsibilities on the Consolidated financial statements is set out in the auditors' report on pages 42 to 43 of the annual report of the Company for the year ended 31 December 2007.

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.

INDEPENDENT AUDITORS' REPORT

HLB 國衛會計師事務所
Hodgson Impey Cheng

Chartered Accountants
Certified Public Accountants

31/F, Gloucester Tower
The Landmark
11 Pedder Street
Central
Hong Kong

TO THE SHAREHOLDERS OF
FAVA INTERNATIONAL HOLDINGS LIMITED
(Incorporated in Bermuda with limited liability)

We have audited the consolidated financial statements of FAVA International Holdings Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 44 to 114 which comprise the consolidated and company balance sheets as at 31 December 2007, the consolidated income statement, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation and the true and fair presentation of these consolidated financial statements in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

AUDITORS' RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated financial statements based on our audit and to report our opinion solely to you, as a body, in accordance with Section 90 of the Bermuda Companies Act 1981, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and true and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2007 and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

HLB Hodgson Impey Cheng
Chartered Accountants
Certified Public Accountants

Hong Kong, 25 March 2008

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2007

	Notes	2007 HK$'000	2006 HK$'000 (Restated)
Turnover	7	**447,814**	160,414
Cost of sales		**(296,060)**	(110,423)
Gross profit		**151,754**	49,991
Other revenue	7	**303**	371
Other income	8	**1,065**	1,145
Gain on disposal of subsidiaries	35	**–**	1,158
Fair value changes on financial assets at fair value through profit or loss	8	**(288)**	–
Fair value loss on derivative liability	29	**–**	(1,616)
Selling and distribution costs		**(17,193)**	(1,041)
Administrative expenses		**(16,140)**	(7,513)
Other operating expenses		**(416)**	(105)
Profit from operations	8	**119,085**	42,390
Finance costs	9	**(3)**	(724)
Profit before taxation		**119,082**	41,666
Taxation	13	**(984)**	–
Profit for the year from continuing operations		**118,098**	41,666
Discontinued operations			
Profit for the year from discontinued operations	10	**–**	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	16		
– Basic		**HK9.98 cents**	HK5.69 cents
– Diluted		**HK9.98 cents**	HK5.62 cents
Earnings per share from continuing operations	16		
– Basic		**HK9.98 cents**	HK4.99 cents
– Diluted		**HK9.98 cents**	HK4.96 cents

The accompanying notes form an integral part of these financial statements.

CONSOLIDATED BALANCE SHEET

As at 31 December 2007

	Notes	2007 HK$'000	2006 HK$'000
Non-current assets			
Property, plant and equipment	17	**76,640**	239
Goodwill	18	**75,108**	–
Intangible assets	19	**7,936**	–
Long term prepayments		**14,165**	–
		173,849	239
Current assets			
Inventories	21	**101,872**	28,609
Trade and bills receivables	22	**22,338**	9,862
Prepayments, deposits and other receivables	23	**76,396**	58,784
Amount due from a former subsidiary		**–**	51
Pledged bank deposits	24	**2,799**	–
Cash and bank balances	24	**55,477**	1,711
		258,882	99,017
Less: Current liabilities			
Trade payables	25	**19,394**	18,351
Other payables and accruals	26	**16,968**	3,271
Receipts in advance	27	**19,399**	13,677
Amount due to a director		**–**	761
Consideration payable for acquisition – due within one year	28	**31,556**	–
Obligations under finance lease – due within one year	30	**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	28	**43,552**	–
Obligations under finance lease – due after one year	30	**61**	13
		43,613	13
Net assets		**301,785**	63,170
Capital and reserves			
Share capital	31	**2,405**	2,005
Reserves	33(a)	**299,380**	61,165
Total equity attributable to equity holders of the Company		**301,785**	63,170

Approved by the Board of Directors on 25 March 2008 and signed on its behalf by:

Mr. Li Ge
Director

Mr. Zhao Guo Wei
Director

The accompanying notes form an integral part of these financial statements.

BALANCE SHEET

As at 31 December 2007

	Notes	2007 HK$'000	2006 HK$'000
Non-current assets			
Property, plant and equipment	*17*	**–**	12
Interests in subsidiaries	*20*	**78**	78
		78	90
Current assets			
Amounts due from subsidiaries	*20*	**111,670**	14,976
Prepayments, deposits and other receivables	*23*	**227**	210
Amount due from a former subsidiary		**–**	51
Cash and bank balances	*24*	**23**	380
		111,920	15,617
Less: Current liabilities			
Amount due to a director		**–**	962
Other payables and accruals	*26*	**2,111**	1,431
		2,111	2,393
Net current assets		**109,809**	13,224
Net assets		**109,887**	13,314
Capital and reserves			
Share capital	*31*	**2,405**	2,005
Reserves	*33(b)*	**107,482**	11,309
Total equity attributable to equity holders of the Company		**109,887**	13,314

Approved by the Board of Directors on 25 March 2008 and signed on its behalf by:

Mr. Li Ge
Director

Mr.Zhao Guo Wei
Director

The accompanying notes form an integral part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2007

	Attributable to equity holders of the Company						
	Share capital	**Share premium**	**Contributed surplus**	**(Accumulated loss)/ Retained earnings**	**Exchange reserve**	**Statutory reserves**	**Total equity**
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	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 *(note 31)*	–	20,734	–	–	–	–	20,734
Issue of shares *(note 31)*	584	–	–	–	–	–	584
Share issue expenses *(note 31)*	–	(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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2007

	Attributable to equity holders of the Company						
	Share capital	Share premium	Contributed surplus	(Accumulated loss)/ Retained earnings	Exchange reserve	Statutory reserves	Total equity
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
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 *(note 31)*	–	107,600	–	–	–	–	107,600
Issue of shares *(note 31)*	400	–	–	–	–	–	400
Share issue expenses *(note 31)*	–	(3,089)	–	–	–	–	(3,089)
At 31 December 2007	**2,405**	**151,778**	**36,000**	**69,103**	**16,720**	**25,779**	**301,785**

The accompanying notes form an integral part of these financial statements.

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 December 2007

	Notes	2007 HK$'000	2006 HK$'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before taxation from continuing operations		**119,082**	41,666
Profit before taxation from discontinued operations		**–**	5,852
Profit before taxation for the year		**119,082**	47,518
Adjustments for:			
Interest income		**(303)**	–
Reversal of accruals		**(199)**	–
Reversal of provision for impairment of trade receivables		**(179)**	–
Waiver of amount due to a former associate		**–**	(1,124)
Gain on disposal of property, plant and equipment		**(5)**	(21)
Gain on disposal of subsidiaries		**–**	(7,874)
Depreciation		**10,993**	63
Amortisation of intangible assets		**2,054**	–
Provision for impairment of trade receivables		**304**	179
Provision for impairment of other receivables		**–**	1
Fair value changes on financial assets at fair value through profit or loss		**288**	–
Finance costs		**3**	724
Fair value loss on derivative liability	*29*	**–**	1,616
Foreign exchange (gain)/loss		**(249)**	1,138
Operating cash flow before working capital changes		**131,789**	42,220
Increase in inventories		**(67,523)**	(26,329)
Increase in trade and bills receivables		**(11,450)**	(10,041)
Decrease/(increase) in amount due from a former subsidiary		**51**	(51)
Increase in prepayments, deposits and other receivables		**(26,596)**	(56,601)
(Decrease)/increase in trade payables		**(232)**	18,351
Increase in other payables and accruals		**13,260**	1,101
Increase in receipts in advance		**4,575**	13,005
Increase in amount due to an associate		**–**	982
(Decrease)/increase in amount due to a director		**(755)**	761
Cash generated from/(used in) operations		**43,119**	(16,602)
Interest element on finance lease rental payments		**(3)**	(2)
Overseas taxes paid		**(984)**	(36)
Net cash inflow/(outflow) from operating activities		**42,132**	(16,640)

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 December 2007

	Notes	2007 HK$'000	2006 HK$'000
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest received		**303**	–
Purchase of property, plant and equipment		**(81,216)**	(200)
Acquisition of intangible assets		**(9,674)**	–
Acquisition of household product retail business	*34*	**(3,943)**	–
Disposal of subsidiaries	*35*	**–**	(91)
Purchase of financial assets at fair value through profit or loss		**(2,997)**	–
Proceeds from disposal of financial assets at fair value through profit or loss		**2,709**	–
Net cash outflow from investing activities		**(94,818)**	(291)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issue of shares	*31*	**108,000**	1,819
Share issue expenses	*31*	**(3,089)**	(117)
Increase in pledged bank deposits		**(2,799)**	–
Proceeds from issue of convertible bonds		**–**	17,161
Repayment of short term loan from a shareholder		**–**	(600)
Capital element of finance lease rental payments		**(14)**	(13)
Net cash inflow from financing activities		**102,098**	18,250
NET INCREASE IN CASH AND CASH EQUIVALENTS		**49,412**	1,319
Cash and cash equivalents at the beginning of the year		**1,711**	392
Effects of exchange rate changes on the balance of cash held in foreign currencies		**4,354**	–
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR		**55,477**	1,711
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances		**55,477**	1,711

The accompanying notes form an integral part of these financial statements.

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]

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

[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 financial statements.

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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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.

Subsidiaries

A subsidiary in an entity whose financial and operating policies the Company controls, directly or indirectly, so as to obtain benefits from its activities.

The results of subsidiaries are included in the Company's income statement to the extent of dividends received and receivable. The Company's interests in subsidiaries that are not classified as held for sale in accordance with HKFRS 5 are stated at cost less any impairment losses.

Goodwill

Goodwill arising on an acquisition of a business represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets, liabilities and contingent liabilities of the relevant business at the date of acquisition. Such goodwill is carried at cost less any accumulated impairment losses.

Capitalised goodwill arising on an acquisition of a business is presented separately in the consolidated balance sheet.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Goodwill *(Continued)*

For the purpose of impairment testing, goodwill arising from an acquisition is allocated to each of the relevant cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the acquisition. A cash-generating unit to which goodwill has been allocated is tested for impairment annually, and whenever there is an indication that the unit may be impaired. For goodwill arising on an acquisition in a financial year, the cash-generating unit to which goodwill has been allocated is tested for impairment before the end of that financial year. When the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated to reduce the carrying amount of any goodwill allocated to the unit first, and then to the other assets of the unit pro rata on the basis of the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognised directly in the consolidated income statement. An impairment loss for goodwill is not reversed in subsequent periods.

On subsequent disposal of the relevant cash-generating unit, the attributable amount of goodwill capitalised is included in the determination of the amount of profit or loss on disposal.

Impairment of non-financial assets (other than goodwill)

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than goodwill, inventories and financial assets), the asset's recoverable amount is estimated. An asset's recoverable amount is calculated as the higher of the asset's or cash-generating unit's value in use and its fair value less costs to sell, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is charged to the income statement in the period in which it arises.

An assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognised impairment loss of an asset other than goodwill and certain financial assets is reversed only if there has been a change in the estimates used to determine the recoverable amount of that asset, however not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation) had no impairment loss been recognised for the asset in prior years. A reversal of such impairment loss is credited to the income statement in the period in which it arises.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Intangible assets

Trademark

Trademark is stated at cost less accumulated amortisation and less any impairment losses. The amortisation period adopted for intangible assets is 5 years.

Related party transactions

A party is considered to be related to the Group if:

(a) the party, directly or indirectly through one or more intermediaries, (i) control, is controlled by, or is under common control with, the Group; (ii) has an interest in the Group that gives it significant influence over the Group; or (iii) has joint control over the Group;

(b) the party is an associate;

(c) the party is a jointly-controlled entity;

(d) the party is a member of the key management personnel of the Group or its parent;

(e) the party is a close member of the family of any individual referred to in (a) or (d);

(f) the party is an entity that is controlled, jointly controlled or significantly influenced by or for which significant voting power in such entity resides with, directly or indirectly, any individual referred to in (d) or (e); or

(g) the party is a post-employment benefit plan for the benefit of the employees of the Group, or of any entity that is a related party of the Group.

A transaction is considered to be a related party transaction when there is a transfer of resources or obligations between related parties.

Property, plant and equipment and depreciation

Property, plant and equipment are stated at cost less accumulated depreciation and any impairment losses. The cost of an item of property, plant and equipment comprises its purchases price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to the income statement in the period in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of an item of property, plant and equipment, and where the cost of the item can be measured reliably, the expenditure is capitalised as an additional cost of that asset or as a replacement.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Property, plant and equipment and depreciation *(Continued)*

Depreciation is calculated on the straight-line basis to write off the cost of each item of property, plant and equipment to its residual value over its estimated useful life. The principal annual rates used for this purpose are as follows:

Plant and machinery	18%
Leasehold improvements	Over the lease terms
Motor vehicles	18%
Furniture and fixtures	20%
Office and computer equipment	30%

Where parts of an item of property, plant and equipment have different useful lives, the cost of that item is allocated on a reasonable basis among the parts and each part is depreciated separately.

Residual values, useful lives and depreciation method are reviewed, and adjusted if appropriate, at each balance sheet date.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement recognised in the income statement in the year the asset is derecognised is the difference between the net sales proceeds and the carrying amount of the relevant asset.

Leases

Leases that transfer substantially all the rewards and risks of ownership of assets to the Group, other than legal title, are accounted for as finance leases. At the inception of a finance lease, the cost of the leased asset is capitalised at the present value of the minimum lease payments and recorded together with the obligation, excluding the interest element, to reflect the purchase and financing. Assets held under capitalised finance leases are included in property, plant and equipment, and depreciated over the shorter of the lease terms and the estimated useful lives of the assets. The finance costs of such leases are charged to the income statement so as to provide a constant periodic rate of charge over the lease terms.

Assets acquired through hire purchase contracts of a financing nature are accounted for as finance leases, but are depreciated over their estimated useful lives.

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Where the Group is the lessee, rentals payable under the operating leases net of any incentives received from the lessor are charged to the income statement on the straight-line basis over the lease terms.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Investments and other financial assets

Financial assets in the scope of HKAS 39 are classified as financial assets at fair value through profit or loss, loans and receivables, and available-for-sale financial assets, as appropriate. When financial assets are recognised initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs. The Group considers whether a contract contains an embedded derivative when the Group first becomes a party to it. The embedded derivatives are separated from the host contract which is not measured at fair value through profit or loss when the analysis shows that the economic characteristics and risks of embedded derivatives are not closely related to those of the host contract.

The Group determines the classification of its financial assets after initial recognition and, where allowed and appropriate, re-evaluates this designation at the balance sheet date.

All regular way purchases and sales of financial assets are recognised on the trade date, that is, the date that the Group commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

Financial assets at fair value through profit or loss
Financial assets at fair value through profit or loss has two subcategories, including financial assets held for trading and those designated as at fair value through profit or loss on initial recognition:

A financial asset is classified as held for trading if:

- it has been acquired principally for the purpose of selling in the near future; or

- it is a part of an identified portfolio of financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or

- it is a derivative that is not designated and effective as a hedging instrument.

A financial asset other than a financial asset held for trading may be designated as at fair value through profit or loss upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or

- the financial asset forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Investments and other financial assets *(Continued)*

Financial assets at fair value through profit or loss (Continued)

- it forms part of a contract containing one or more embedded derivatives, and HKAS 39 permits the entire combined contract (asset or liability) to be designated as at fair value through profit or loss.

At each balance sheet date subsequent to initial recognition, financial assets at fair value through profit or loss are measured at fair value, with changes in fair value recognised directly in the income statement in the period in which they arise. The net gain or loss recognised in profit or loss includes any dividend or interest earned on the financial assets.

Loans and receivables
Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are subsequently carried at amortised cost using the effective interest method. Amortised cost is calculated taking into account any discount or premium on acquisition and includes fees that are an integral part of the effective interest rate and transaction costs. Gains and losses are recognised in the income statement when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

Available-for-sale financial assets
Available-for-sale financial assets are non-derivative financial assets in listed and unlisted equity securities that are designated as available-for-sale or are not classified in any of the other two categories. After initial recognition, available-for-sale financial assets are measured at fair value, with gains or losses recognised as a separate component of equity until the investment is derecognised or until the investment is determined to be impaired, at which time the cumulative gain or loss previously reported in equity is included in the income statement.

When the fair value of unlisted equity securities cannot be reliably measured because (a) the variability in the range of reasonable fair value estimates is significant for that investment or (b) the probabilities of the various estimates within the range cannot be reasonably assessed and used in estimating fair value, such securities are stated at cost less any impairment losses.

Fair value
The fair value of investments that are actively traded in organised financial market is determined by reference to quoted market bid prices at the close of business at the balance sheet date. For investments where there is no active market, fair value is determined using valuation techniques. Such techniques include using recent arm's length market transactions; reference to the current market value of another instrument which is substantially the same; a discounted cash flow analysis; and other valuation models.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Impairment of financial assets

The Group assesses at each balance sheet date whether there is any objective evidence that a financial asset or a group of financial assets is impaired.

Assets carried at amortised cost
If there is objective evidence that an impairment loss on loans and receivables carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition). The carrying amount of the asset is reduced either directly or through the use of an allowance account. The amount of the impairment loss is recognised in the income statement.

The Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If it is determined that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the asset is included in a group of financial assets with similar credit risk characteristics and that group is collectively assessed for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed. Any subsequent reversal of an impairment loss is recognised in the income statement, to the extent that the carrying value of the asset does not exceed its amortised cost at the reversal date.

In relation to trade receivables, a provision for impairment is made when there is objective evidence (such as the probability of insolvency of significant financial difficulties of the debtor) that the Group will not be able to collect all of the amounts due under the original terms of an invoice. The carrying amount of the receivables is reduced through the use of an allowance account. Impaired debts are derecognised when they are assessed as uncollectible.

Assets carried at cost
If there is objective evidence that an impairment loss on an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Impairment losses on these assets are not reversed.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Impairment of financial assets *(Continued)*

Available-for-sale financial assets

If an available-for-sale asset is impaired, an amount comprising the difference between its cost (net of any principal payment and amortisation) and its current fair value, less any impairment loss previously recognised in the income statement, is transferred from equity to the income statement. Impairment losses on equity instruments classified as available-for-sale are not reversed through the income statement.

Derecognition of financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised where:

- the rights to receive cash flows from the asset have expired;
- the Group retains the rights to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a "pass-through" arrangement; or
- the Group has transferred its rights to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Where the Group has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Group's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

Where continuing involvement takes the form of a written and/or purchased option (including a cash-settled option or similar provision) on the transferred asset, the extent of the Group's continuing involvement is the amount of the transferred asset that the Group may repurchase, except in the case of a written put option (including a cash-settled option or similar provision) on an asset measured at fair value, where the extent of the Group's continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial liabilities and equity

Financial liabilities and equity instruments issued by the Group are classified accordingly to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument.

An equity instrument is an contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. The Group's financial liabilities are generally classified into financial liabilities at fair value through profit or loss and financial liabilities at amortised costs.

Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss classified into (i) financial liabilities held for trading and (ii) those designated as at fair value through profit or loss on initial recognition.

A financial liability is classified as held for trading if:

- it has been incurred principally for the purpose of repurchasing in the near future; or
- it is a part of an identified portfolio of financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

A financial liability other than a financial liability held for trading may be designated as at fair value through profit or loss upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- the financial liability forms part of a group of financial assets or financial liabilities or both which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- it forms part of a contract containing one or more embedded derivatives, and HKAS 39 permits the entire combined contract (asset or liability) to be designated as at fair value through profit or loss.

At each balance sheet date subsequent to initial recognition, financial liabilities at fair value through profit or loss are measured at fair value, with changes in fair value, with changes in fair value recognised directly in the income statement in the period in which they arise. The net gain or loss recognised in profit or loss includes any interest paid on the financial liability.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial liabilities at amortised cost

Financial liabilities including trade and other payables and borrowings are initially stated at fair value less directly attributable transaction costs and are subsequently measured at amortised cost, using the effective interest method unless the effect of discounting would be immaterial, in which case they are stated at cost.

Gains and losses are recognised in the income statement when the liabilities are derecognised as well as through the amortisation process.

Convertible loans notes

Convertible loan notes issued by the Company that contain both the liability and conversion option components are classified separately into respective items on initial recognition. Conversion option will be settled by the exchange of a fixed amount of cash or another financial asset for a fixed number of the Company's own equity instrument is an equity instrument. For conversion option that does not meet the definition of an equity instrument, it is classified as a derivative financial liability and is carried at fair value.

Convertible notes that contain an equity component
On initial recognition, the fair value of the liability component is determined using the prevailing market interest rate of similar non-convertible debts. The difference between the proceeds of the issue of the convertible loan notes and the fair value assigned to the liability component, representing the conversion option for the holder to convert the loan notes equity, is included in equity.

In subsequent periods, the liability component of the convertible loan notes is carried at amortised cost using the effective interest rate method. The equity component will remain in convertible loan note equity reserve until the conversion option is exercised (in which case the amount will be transferred to the share premium account). Where the option remains unexercised at the expiry date, the amount stated in the convertible loan note equity reserve will be released to retained profits. No gain or loss is to be recognised in the income statement upon conversion or expiration of the option.

Convertible notes that do not contain an equity component
Conversion option that is classified as derivative financial liability are re-measured at each balance sheet date subsequent to initial recognition with changes in fair value recognised directly in the income statement in the period in which they arise.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Derecognition of financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expired. The difference between the carrying value of the financial liability derecognised and the consideration paid is recognised in the income statement.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and a recognition of a new liability, and the difference between the respective carrying amounts is recognised in the income statement.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined on the first-in, first-out or weighted average basis and, in the case of work in progress and finished goods, comprises direct materials, direct labour and an appropriate proportion of overheads.

Net realisable value is based on estimated selling prices less any estimated costs to be incurred to completion and disposal.

Cash and cash equivalents

For the purpose of the consolidated cash flow statement, cash and cash equivalents comprise cash on hand and demand deposits, and short term highly liquid investments which are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

For the purpose of the balance sheets, cash and bank balances comprise cash on hand and at banks, including term deposits, which are not restricted as to use.

Provisions and contingent liabilities

A provision is recognised when a present obligation (legal or constructive) has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation.

When the effect of discounting is material, the amount recognised for a provision is the present value at the balance sheet date of the future expenditures expected to be required to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefit is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Income tax

Income tax comprises current and deferred tax. Income tax is recognised in the income statement, or in equity if it relates to items that are recognised in the same or a different period directly in equity.

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities.

Deferred tax is provided, using the liability method, on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all taxable temporary differences, except:

- where the deferred tax liability arise from goodwill or the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, carryforward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carryforward of unused tax credits and unused tax losses can be utilised except:

- where the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Conversely, previously unrecognised deferred tax assets are reassessed at each balance sheet date and are recognised to the extent that it is probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Income tax *(Continued)*

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date.

Deferred tax assets and deferred tax liabilities are offset, if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

Revenue recognition

Revenue is recognised when it is probable that the economic benefits will flow to the Group and when the revenue can be measured reliably, on the following bases:

(a) from the sale of goods, when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold;

(b) from the rendering of services, when services are provided; and

(c) interest income, on an accrual basis using the effective interest method by applying the rate that discounts the estimated future cash receipts through the expected life of the financial instrument to the net carrying amount of the financial asset.

Employee benefits

Pension schemes

The Group operates a defined contribution Mandatory Provident Fund retirement benefits scheme (the "MPF Scheme") under the Mandatory Provident Fund Schemes Ordinance, for those employees who are eligible to participate in the MPF Scheme. Contributions are made based on a percentage of the employees' basic salaries and are charged to the income statement as they become payable in accordance with the rules of the MPF Scheme. The assets of the MPF Scheme are held separately from those of the Group in an independently administered fund. The Group's employer contributions vest fully with the employees when contributed into the MPF Scheme.

The employees of the Group's subsidiaries which operate in Mainland China are required to participate in a central pension scheme operated by the local municipal government. The contributions are charged to the income statement as they become payable in accordance with the rules of the central pension scheme.

Borrowing costs

Borrowing costs are recognised as expenses in the income statement in the period in which they are incurred.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Foreign currencies

These financial statements are presented in Hong Kong dollars, which is the Company's functional and presentation currency. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Foreign currency transactions are initially recorded using the functional currency rates ruling at the date of the transactions. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rates of exchange ruling at the balance sheet date. All differences are taken to the income statement. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

The functional currencies of certain overseas subsidiaries are currencies other than the Hong Kong dollar. As at the balance sheet date, the assets and liabilities of these entities are translated into the presentation currency of the Company at the exchange rates ruling at the balance sheet date, and their income statements are translated into Hong Kong dollars at the weighted average exchange rates for the year. The resulting exchange differences are included in the exchange fluctuation reserve. On disposal of a foreign entity, the deferred cumulative amount recognised in equity relating to that particular foreign operation is recognised in the income statement.

Current assets and liabilities

Current assets are expected to be realised within twelve months of the balance sheet date or in the normal course of the Group's operating cycle. Current liabilities are expected to be settled within twelve months of the balance sheet date or in the normal course of the Group's operating cycle.

Segment reporting

A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different from those of other business segments. A geographical segment is engaged in providing products or services within a particular economic environment that are subject to risks and returns that are different from those of segments operating in other economic environments.

Inter-segment pricing is based on similar terms as those available to other external parties.

Segment revenue, expenses, results, assets and liabilities include items directly attributable to a segment and those that can be allocated on a reasonable basis to that segment. Segment revenue, expenses, assets and liabilities are determined before intra-group balances and intra-group transactions are eliminated as part of the consolidation process, except to the extent that such intra-group balances and transactions are between group enterprises within a single segment.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Segment reporting *(Continued)*

Segment capital expenditure is the total cost incurred during the year to acquire segment assets (both tangible and intangible) that are expected to be used for more than one year.

Unallocated items mainly comprise financial and corporate assets, borrowings, corporate and financial expenses.

4. SIGNIFICANT ACCOUNTING JUDGMENTS AND ESTIMATES

Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

(a) Income tax

The Group is subject to income taxes in Hong Kong and the People's Republic of China (the "PRC"). Significant judgment is required in determining the provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The Group recognises liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

(b) Impairment of property, plant and equipment

In accordance with HKAS 16, the Group estimates the useful lives of property, plant and equipment in order to determine the amount of depreciation expenses to be recorded. The useful lives are estimated at the time the asset is acquired based on historical experience, the expected usage, wear and tear of the assets, as well as technical obsolescence arising from changes in the market demands or service output of the assets. The Group also perform annual reviews on whether the assumptions made on useful lives continue to be valid. The Group tests annually whether the assets have suffered any impairment. The recoverable amount of an asset or a cash generating unit is determined based on value in use calculations which require the use of assumptions and estimates.

4. SIGNIFICANT ACCOUNTING JUDGMENTS AND ESTIMATES *(Continued)*

(c) Impairment of trade receivables

The aged debt profile of trade debtors is reviewed on a regular basis to ensure that the trade debtor balances are collectible and follow up actions are promptly carried out if the agreed credit periods have been exceeded. However, from time to time, the Group may experience delays in collection. Where recoverability of trade debtor balances are called into doubts, specific provisions for bad and doubtful debts are made based on credit status of the customers, the aged analysis of the trade receivable balances and write-off history. Certain receivables may be initially identified as collectible, yet subsequently become uncollectible and result in a subsequent write-off of the related receivable to the income statement. Changes in the collectibility of trade receivables for which provisions are not made could affect our results of operations.

(d) Fair value of financial instruments

The fair value of derivative liability is determined by valuation techniques. The Group uses its judgment to select methods and make assumptions that are mainly based on market conditions existing at the date of determination of fair value.

(e) Impairment of goodwill

The Group tests annually whether goodwill has suffered any impairment in accordance with the accounting policy stated above. The recoverable amounts of cash-generating units have been determined based on value in use calculations. These calculations require the use of estimates (note 18).

The carrying amount of goodwill at the balance sheet date was approximately HK$75,108,000.

5. FINANCIAL INSTRUMENTS AND CAPITAL RISK MANAGEMENT

(a) Categories of financial instruments

	As at 31 December	
	2007	2006
	HK$'000	HK$'000
Financial assets		
Loans and receivables (including cash and cash equivalents)	**86,516**	70,408
Financial liabilities		
Measured at amortised cost	**55,168**	36,086

5. FINANCIAL INSTRUMENTS AND CAPITAL RISK MANAGEMENT *(Continued)*

(b) Financial risk management objectives and policies

The main risks arising from the Group's financial instruments are market risk (including interest rate risk and foreign exchange risk), credit risk and liquidity risk. The Board reviews and agrees policies for managing each of these risks and they are summarised below.

Market risk

The Group's activities expose it primarily to the financial risks of changes in interest rates and foreign currency exchange rates.

Market exposures are measured by sensitivity analysis
There has been no change to the Group's exposure to market risks or the manner in which it manages and measures the risk.

Interest rate risk management
As the Group has no significant interest-bearing assets, the Group's income and operating cash flows are substantially independent of changes in market interest rates. The Group considers that there is no significant cash flow interest rate risk as the Group does not have any significant interest-bearing liabilities.

The Group's exposures to interest rates on financial liabilities are detailed in liquidity risk management section of this note.

Foreign currency risk management
The Group has transactional currency exposures. Such exposures arise from sales or purchases by operating units in currencies other than the units' functional currency. The Group's markets mainly located in the United States of America ("USA"), European Union and the PRC and its sales are denominated in United States dollars ("USD"), Euro dollars ("Euro") and Renminbi ("RMB") respectively whilst almost all of costs are denominated in the units' functional currency.

The carrying amounts of the Group's foreign currency denominated monetary assets and monetary liabilities at the balance sheet date are as follows:–

	Liabilities		**Assets**	
	As at 31 December		**As at 31 December**	
	2007	2006	**2007**	2006
	HK$'000	HK$'000	**HK$'000**	HK$'000
USD	**5,006**	1,705	**5,084**	1,305
Euro	**–**	–	**5,760**	7,863
RMB	**48,467**	32,147	**75,508**	2,371

5. FINANCIAL INSTRUMENTS AND CAPITAL RISK MANAGEMENT *(Continued)*

(b) Financial risk management objectives and policies *(Continued)*

Market risk *(Continued)*

Sensitivity analysis on foreign currency risk management

The Group is mainly exposed to the effects of fluctuation in USD, Euro and RMB.

The following table details the Group's sensitivity to a 5% increase and decrease in Hong Kong dollars against the relevant foreign currencies. 5% is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes outstanding foreign currency denominated monetary items and adjusts their translation at the year end for a 5% change in foreign currency rates. A positive number below indicates an increase in profit where the Hong Kong dollars strengthen 5% against the relevant currency. For a 5% weakening of the Hong Kong dollars against the relevant currency, there would be an equal and opposite impact on the profit, and the balance below would be negative.

	As at 31 December	
	2007	2006
	HK$'000	HK$'000
Impact of USD		
Profit or loss *(note (i))*	**4**	(20)
Impact of Euro		
Profit or loss *(note (ii))*	**288**	393
Impact of RMB		
Profit or loss *(note (iii))*	**1,352**	(1,489)

Note:

(i) This is mainly attributable to the exposure outstanding on receivables, cash and bank balances and payables denominated in USD not subject to cash flow hedge at year end.

(ii) This is mainly attributable to the exposure outstanding on receivables and cash and bank balances denominated in Euro not subject to cash flow hedge at year end.

(iii) This is mainly attributable to the exposure outstanding on receivables, cash and bank balances and payables denominated in RMB not subject to cash flow hedge at year end.

5. FINANCIAL INSTRUMENTS AND CAPITAL RISK MANAGEMENT *(Continued)*

(b) Financial risk management objectives and policies *(Continued)*

Credit risk

As at 31 December 2006 and 2007, the Group's maximum exposure to credit risk which will cause a financial loss to the Group due to failure to discharge an obligation by the counterparties is arising from the carrying amount of the respective recognised financial assets as stated in the consolidated balance sheet.

The Group has put in place policies to ensure that sales of products are made to recognised and creditworthy third parties. It is the Group's policy that all customers who wish to trade on credit terms are required to pay deposits which amounts are varied from customers to customers. In addition, receivable balances are monitored on an ongoing basis. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

Other than concentration of credit risk on liquid funds which are deposited with several banks with high credit ratings, the Group does not have any other significant concentration of credit risk. Trade receivables consist of a large number of customers, spread across geographical areas.

The table below shows the balance of 4 major counterparties (including liquid funds) at the balance sheet date.

	As at 31 December	
	2007	2006
	HK$'000	HK$'000
Bank A	**367**	664
Bank B	**54,003**	228
Bank C	**2,821**	37
Bank D	**805**	134

Liquidity risk

The Group's liquidity risk management includes diversifying the funding sources. Internally generated cash flow and placing of shares during the year are the general source of funds to finance the operation of the Group. The Group regularly reviews its major funding positions to ensure that it has adequate financial resources in meeting its financial obligations.

The following table details the Group's remaining contractual maturity for its financial liabilities which are included in the maturity analysis provided internally to the key management personnel for the purpose of managing liquidity risk. For non-derivative financial liabilities, the table reflects the undiscounted cash flows of financial liabilities based on the earliest date on which the Company can be required to pay. The tables include both interest and principal cash flows.

5. FINANCIAL INSTRUMENTS AND CAPITAL RISK MANAGEMENT *(Continued)*

(b) Financial risk management objectives and policies *(Continued)*

Liquidity risk *(Continued)*

	Weighted average effective interest rate %	Within 1 year HK$'000	Over 1 year HK$'000	Total undiscounted cash flows HK$'000	Total carrying amount HK$'000
As at 31 December 2007					
Non-derivative financial liabilities					
Trade payables	–	19,394	–	19,394	19,394
Other payables and accruals	–	16,298	–	16,298	16,298
Receipts in advance	–	19,399	–	19,399	19,399
Finance lease liability	5	16	61	77	77

	Weighted average effective interest rate %	Within 1 year HK$'000	Over 1 year HK$'000	Total undiscounted cash flows HK$'000	Total carrying amount HK$'000
As at 31 December 2006					
Non-derivative financial liabilities					
Trade payables	–	18,351	–	18,351	18,351
Other payables and accruals	–	4,032	–	4,032	4,032
Receipts in advance	–	13,677	–	13,677	13,677
Finance lease liability	4.5	13	13	26	26

Fair value estimation

The fair value of financial assets and financial liabilities are determined as follows:

(i) the fair value of financial assets and financial liabilities (including derivative instruments) with standard terms and conditions and traded on active liquid markets are determined with reference to quoted market bid prices and ask prices respectively; and

(ii) the fair value of other financial assets and financial liabilities (including derivative instruments) are determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices or rates from observable current market transactions as input.

5. FINANCIAL INSTRUMENTS AND CAPITAL RISK MANAGEMENT *(Continued)*

(b) Financial risk management objectives and policies *(Continued)*

Fair value estimation *(Continued)*

The directors consider that the carrying amounts of financial assets and financial liabilities recorded in the financial statements approximate their fair values.

(c) Capital risk management

The Group's objectives when managing capital are to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

The capital structure of the Group consists of debt (which only includes obligations under finance leases) and equity attributable to equity holders of the Company, comprising issued share capital, reserves and retained earnings.

Gearing ratio

The directors review the capital structure regularly. As part of this review, the directors consider the cost of capital and the risks associated with each class of capital. During the year ended 31 December 2007, the Group's strategy, which was unchanged from previous years, was to reduce the gearing ratio. This ratio is calculated base on total debt and shareholders equity.

The gearing ratio as at 31 December 2006 and 2007 are as follows:

	As at 31 December	
	2007	2006
	HK$'000	HK$'000
Debt#	**77**	26
Shareholders' equity	**301,785**	63,170
Gearing ratio	**0.0255%**	0.0412%

\# Total debt comprises obligations under finance leases as detailed in note 30.

6. SEGMENT INFORMATION

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

The Group's operating businesses are structured and managed separately, according to the nature of their operations and the products and services they provide. Each of the Group's business segments 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.

6. SEGMENT INFORMATION *(Continued)*

(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 HK$'000	2006 HK$'000	**2007 HK$'000**	2006 HK$'000	**2007 HK$'000**	2006 HK$'000	**2007 HK$'000**	2006 HK$'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

6. SEGMENT INFORMATION *(Continued)*

(a) Business segments *(Continued)*

	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.

7. 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 *(note 10)*	**–**	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 *(note 10)*	**–**	614
	447,814	161,028
Other revenue:		
Bank interest income	**303**	–
Commission income	**–**	371
	303	371

8. 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 *(note 11)*):		
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

8. PROFIT FROM OPERATIONS *(Continued)*

	The Group	
	2007	2006
	HK$'000	HK$'000
and after crediting:		
Gain on disposal of subsidiaries *(note 35)*	**–**	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

9. FINANCE COSTS

	The Group	
	2007	2006
	HK$'000	HK$'000
Interest on convertible notes *(note 29)*	**–**	722
Interest on obligations under finance leases	**3**	2
Total interest	**3**	724

10. DISCONTINUED OPERATIONS

Disposal of the telephone sets sale and subcontracting services business

On 28 August 2006, the Group entered into a share sales agreement to dispose of the Group's telephone sets sale and subcontracting services business. The disposal of the telephone sets sale and subcontracting services business is consistent with the Group's long-term policy to focus its activities on the household product industry. The disposal was completed on 28 August 2006.

	2006 HK$'000 (Restated)
Profit for the year from discontinued operations	
Revenue *(note 7)*	614
Expenses	(1,478)
Loss before taxation	(864)
Income tax expense	–
	(864)
Gain on disposal of operations *(note 35)*	6,716
Profit for the year from discontinued operations	5,852
Cash flows from discontinued operations	
Net cash flows from operating activities	205
Net cash flows	205
Profit per share from the discontinued operations	
– Basic	HK0.70 cents
– Diluted	HK0.66 cents

10. DISCONTINUED OPERATIONS *(Continued)*

	2006 HK$'000 (Restated)
Earnings	
Profit attributable to equity holders of the Company from the discontinued operations	5,852

	'000 (Restated)
Shares	
Weighted average number of ordinary shares in issue during the year used in the basic earnings per share calculation *(note 16)*	835,174
Weighted average number of ordinary shares used in the diluted earnings per share calculation *(note 16)*	886,954

11. DIRECTORS' REMUNERATION

Directors' remuneration for the year, disclosed pursuant to the GEM Listing Rules and Section 161 of the Hong Kong Companies Ordinance, is as follows:

	The Group	
	2007 **HK$'000**	2006 HK$'000
Fees	**644**	439
Other emoluments:		
Salaries, allowances and benefits in kind	**–**	–
Discretionary bonuses	**–**	–
Pension scheme contributions	**–**	7
	644	446

During the years ended 31 December 2006 and 2007, none of the directors were granted share options under the share option scheme operated by the Company.

11. DIRECTORS' REMUNERATION *(Continued)*

(a) Independent non-executive directors

The fees paid to independent non-executive directors during the year were as follows:

	2007 HK$'000	2006 HK$'000
Mr. Yang Dongli	19	16
Mr. Lee Yuen Kwong (Appointed on 12 June 2006)	101	50
Mr. Yang Jie (Appointed on 30 June 2006)	19	6
Mr. Tok Beng Tiong (Resigned on 12 June 2006)	–	54
Mr. Shen Jia Hui (Resigned on 30 June 2006)	–	11
	139	137

There were no other emoluments payable to the independent non-executive directors during the year (2006: Nil).

(b) Executive directors and non-executive directors

	Fees HK$'000	Salaries, allowances and benefits in kind HK$'000	Discretionary bonuses HK$'000	Pension scheme contributions HK$'000	Total remuneration HK$'000
2007					
Executive directors:					
Mr. Zhao Guo Wei	60	–	–	–	60
Mr. Li Ge	445	–	–	–	445
	505	–	–	–	505

There were no non-executive directors during the year ended 31 December 2007.

11. DIRECTORS' REMUNERATION *(Continued)*

(b) Executive directors and non-executive directors *(Continued)*

	Fees HK$'000	Salaries, allowances and benefits in kind HK$'000	Discretionary bonuses HK$'000	Pension scheme contributions HK$'000	Total remuneration HK$'000
2006					
Executive directors:					
Mr. Tai Chi Ching #	121	–	–	7	128
Mr. Tse Wai Kwok, Raymond ##	92	–	–	–	92
Mr. Zhao Guo Wei *	29	–	–	–	29
Mr. Li Ge **	60	–	–	–	60
	302	–	–	7	309

\# Resigned on 31 August 2006

\#\# Resigned on 6 July 2006

* Appointed on 6 July 2006

** Appointed on 31 August 2006

There were no non-executive directors during the year ended 31 December 2006.

There was no arrangement under which a director waived or agreed to waive any remuneration during the years ended 31 December 2006 and 2007.

No emoluments were paid by the Group to the directors as an inducement to join or upon joining the Group or as compensation for loss of office (2006: Nil).

12. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included one (2006: two) directors, details of whose remuneration are set out in note 11 above. Details of the remuneration of the remaining four (2006: three) non-director, highest paid employees for the year are as follows:

	The Group	
	2007	2006
	HK$'000	HK$'000
Salaries, allowances and benefits in kind	**1,116**	463
Pension scheme contributions	**36**	14
Discretionary bonuses	**–**	–
	1,152	477

The number of non-director, highest paid employees whose remuneration fell within the following band is as follows:

	Number of employees	
	2007	2006
Nil to HK$1,000,000	**4**	3

During the years ended 31 December 2006 and 2007, no share options were granted to non-director, highest paid employees in respect of their services to the Group.

No emoluments were paid by the Group to non-director, highest paid employees as an inducement to join or upon joining the Group or as compensation for loss of office (2006: Nil).

13. 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.

13. TAXATION *(Continued)*

	The Group	
	2007	2006
	HK$'000	HK$'000
Current – Hong Kong	**–**	–
Current – PRC	**984**	–
Tax charge for the year	**984**	–

A reconciliation between tax expense and accounting profit at appreciate tax rates is set out below:

	2007		2006	
	HK$'000	**%**	HK$'000	%
Profit before taxation:				
Continuing operations	**119,082**		41,666	
Discontinued operations	**–**		5,852	
	119,082		47,518	
National tax on profit before taxation, calculated at the rates applicable to profits in the countries concerned	**40,680**	**34.2**	15,336	32.3
Tax holiday for a subsidiary operating in the PRC	**(40,608)**	**(34.2)**	(15,227)	(32.0)
Tax exemption	**(649)**	**(0.5)**	–	–
Tax effect of expenses not deductible for tax purpose	**924**	**0.8**	252	0.5
Tax effect of income not taxable for tax purpose	**(229)**	**(0.2)**	(1,471)	(3.1)
Tax loss not recognised	**866**	**0.7**	1,110	2.3
Tax charge for the year at the Group's effective rate	**984**	**0.8**	–	–

13. TAXATION *(Continued)*

Deferred taxation

Deferred tax assets have not been recognised in respect of the following items:

	The Group		The Company	
	2007	2006	**2007**	2006
	HK$'000	HK$'000	**HK$'000**	HK$'000
Tax losses	**325**	325	**17**	17
Deductible temporary differences	**3**	11	**–**	–
	328	336	**17**	17

The above tax losses are available for offsetting against future taxable profits of the companies in which the losses arose. Deferred tax assets have not been recognised in respect of the above items as it is not considered probable that taxable profits will be available against which the above items can be utilised.

14. PROFIT ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY

The consolidated profit attributable to equity holders of the Company for the year ended 31 December 2007 included a loss of approximately HK$8,338,000 (2006: loss of HK$717,000) which has been dealt with in the financial statements of the Company (note 33(b)).

15. 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).

16. 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.

16. EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY *(Continued)*

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 9)*	**–**	722
Fair value loss on derivative liability *(note 29)*	**–**	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

16. EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY *(Continued)*

\# 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 9)*	**–**	722
Fair value loss on derivative liability *(note 29)*	**–**	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.

17. PROPERTY, PLANT AND EQUIPMENT

The Group

	Plant and machinery HK$'000	Leasehold improvements HK$'000	Motor vehicles HK$'000	Furniture and fixtures HK$'000	Office and computer equipment HK$'000	Total HK$'000
Cost:						
At 1 January 2006	625	51	115	57	284	1,132
Additions	172	–	–	1	60	233
Disposals	–	–	–	–	(62)	(62)
Disposal of subsidiaries *(note 35)*	(625)	–	(115)	(55)	–	(795)
At 31 December 2006 and 1 January 2007	172	51	–	3	282	508
Additions	80,147	–	172	2	993	81,314
Acquisition of business *(note 34)*	–	3,048	–	–	–	3,048
Disposals	–	–	–	–	(34)	(34)
Exchange realignment	3,343	127	7	–	38	3,515
At 31 December 2007	83,662	3,226	179	5	1,279	88,351
Accumulated depreciation:						
At 1 January 2006	395	15	58	30	261	759
Charge for the year	18	26	2	1	16	63
Disposals	–	–	–	–	(50)	(50)
Disposal of subsidiaries *(note 35)*	(412)	–	(60)	(31)	–	(503)
At 31 December 2006 and 1 January 2007	1	41	–	–	227	269
Charge for the year	9,740	1,154	3	3	93	10,993
Disposals	–	–	–	–	(7)	(7)
Exchange realignment	405	47	–	–	4	456
At 31 December 2007	10,146	1,242	3	3	317	11,711
Net book value:						
At 31 December 2007	**73,516**	**1,984**	**176**	**2**	**962**	**76,640**
At 31 December 2006	171	10	–	3	55	239

The net book value of the Group's office and computer equipment held under finance lease as at 31 December 2007 was approximately HK$69,000 (2006: HK$27,000).

17. PROPERTY, PLANT AND EQUIPMENT *(Continued)*

The Company

	Leasehold improvements	Office and computer equipment	Total
	HK$'000	HK$'000	HK$'000
Cost:			
At 1 January 2006 and 1 January 2007 and 31 December 2007	51	219	270
Accumulated depreciation:			
At 1 January 2006	15	217	232
Charge for the year	25	1	26
At 31 December 2006 and 1 January 2007	40	218	258
Charge for the year	11	1	12
At 31 December 2007	51	219	270
Net book value:			
At 31 December 2007	**–**	**–**	**–**
At 31 December 2006	11	1	12

18. GOODWILL

The Group

	HK$'000
Cost:	
At 1 January 2006 and 1 January 2007	–
Addition due to acquisition of business *(note 34)*	75,108
At 31 December 2007	75,108
Impairment:	
At 1 January 2006 and 1 January 2007	–
Impairment loss recognised	–
At 31 December 2007	–
Carrying amount:	
At 31 December 2007	**75,108**
At 31 December 2006	–

In the year ended 31 December 2007, with regard to the current market situation in the retail business of household products, the directors reviewed the carrying amount of goodwill arising from the acquisition of household products retail business. The recoverable amount of household products retail business cash-generating unit has been determined base on a value in use calculation using cash flow projections based on financial budget covering one year approved by senior management. The discount rate applied to the cash flow projections is 6.75%.

Key assumptions were used in the value in use calculation of the household products retail business cash-generating unit for the year ended 31 December 2007. The following describes each key assumption on which management has based its cash flow projections to undertake impairment testing of goodwill:

Budgeted gross margins – the basis used to determine the value assigned to the budgeted gross margins is the average gross margins achieved in the year immediately before the budget year, increased for expected efficiency improvements and expected market development.

Discount rates – the discount rates used are before tax and reflect specific risks relating to the relevant units.

19. INTANGIBLE ASSETS

The Group

	Trademark HK$'000
Cost:	
At 1 January 2006 and 1 January 2007	–
Additions	9,674
Exchange realignment	402
At 31 December 2007	10,076
Amortisation:	
At 1 January 2006 and 1 January 2007	–
Amortise for the year	2,054
Exchange realignment	86
At 31 December 2007	2,140
Carrying amount:	
At 31 December 2007	**7,936**
At 31 December 2006	–

20. INTERESTS IN SUBSIDIARIES

	The Company	
	2007 HK$'000	2006 HK$'000
Unlisted shares, at cost	**78**	78
Less: Provision for impairment loss in respect of investments in subsidiaries	**–**	–
	78	78
Amounts due from subsidiaries *(note (i))*	**114,384**	15,947
Less: Provision for impairment loss in respect of amounts due from subsidiaries	**(2,714)**	(971)
	111,670	14,976

20. INTERESTS IN SUBSIDIARIES *(Continued)*

Movement in provision for impairment loss in respect of amounts due from subsidiaries is as follows:

	The Company	
	2007	2006
	HK$'000	HK$'000
Balance at beginning of the year	**971**	–
Impairment loss recognised in respect of amounts due from subsidiaries *(note (ii))*	**2,714**	971
Reversal of impairment loss	**(971)**	–
Balance at end of the year	**2,714**	971

Notes:

(i) The amounts due from subsidiaries included in the Company's current assets are unsecured, interest-free and are recoverable on demand. The carrying amounts of these amounts due from subsidiaries approximate their fair values.

(ii) In view of the accumulated losses and net liabilities position of the Company's subsidiaries for the year ended 31 December 2007, the directors of the Company considered that the carrying amounts of the amounts due from subsidiaries exceeds the recoverable amount, and thus, they concluded that it is appropriate to make provision for impairment in values in respect of the amounts due from subsidiaries.

20. INTERESTS IN SUBSIDIARIES *(Continued)*

Particulars of the Company's subsidiaries at 31 December 2007 are as follows:

Name of subsidiary	Place of incorporation and kind of legal entity	Issued and paid-up capital	Percentage of equity attributable to the Group	Percentage of voting power held	Principal activities and place of operation
Alwin Asia Investment Limited	British Virgin Islands, limited liability company	US$10,000	100%	100%	Investment holding, Hong Kong
Tedwood International Limited	Hong Kong, limited liability company	HK$1	100%	100%	Inactive, Hong Kong
Lang Fang Tian Feng Home Co. Ltd	The PRC, wholly owned foreign enterprise	US$1,850,000	100%	100%	Manufacture and sales of household products, the PRC
Trader Group International Limited	British Virgin Islands, limited liability company	US$1	100%	100%	Investment holding, Hong Kong
Langfang Huari Hengyu Home Co., Ltd. (formerly known as Langfang Hengyu Home Co., Ltd.)#	The PRC, wholly owned foreign enterprise	US$12,100,000	100%	100%	Manufacture and sales of household products, the PRC

The subsidiary was incorporated on 25 December 2006. Upon incorporation, the registered capital amounted to US$100,000. On 16 January 2007, the registered capital was increased to US$12,600,000. Capital injection of registered capital of US$100,000 and US$12,000,000 were injected by the Group on 7 January 2007 and 14 February 2007 respectively. The remaining amount of the registered capital of US$500,000 is required to be injected on or before 15 January 2009. The principal activities of the subsidiary are manufacture and sales of household products.

21. INVENTORIES

	The Group	
	2007	2006
	HK$'000	HK$'000
Raw materials	**47,797**	319
Work in progress	**25,853**	22,310
Finished goods	**28,222**	5,980
	101,872	28,609

22. 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.

22. TRADE AND BILLS RECEIVABLES *(Continued)*

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

Included in the Group's trade and bills receivables balance are debtors with a carrying amount of HK$10,407,000 (2006: HK$1,797,000) which are past due at the balance sheet date for which the Group has not provided for impairment loss. The Group does not hold any collateral over these balances.

An aging analysis of trade and bills receivables which are past due but not impaired is as follows:

	The Group	
	2007	2006
	HK$'000	HK$'000
31 – 60 days	**6,096**	1,150
61 – 90 days	**1,320**	260
91 – 180 days	**967**	245
Over 180 days	**2,024**	142
	10,407	1,797

22. TRADE AND BILLS RECEIVABLES *(Continued)*

Movement in provision for impairment of trade receivables is as follows:

	The Group	
	2007	2006
	HK$'000	HK$'000
Balance at beginning of the year	**179**	–
Reversal of provision for impairment of trade receivables	**(179)**	–
Impairment loss recognised on trade receivables	**304**	179
Exchange realignment	**18**	–
Balance at end of the year	**322**	179

In determining the recoverability of trade receivables, the Group considers any change in the credit quality of the trade receivables from the date credit were initially granted up to the reporting date. Accordingly, the directors considered provision for impairment is values be made in respect of trade receivables to their recoverable values and believe that there is no further credit provision required in excess of the allowance for doubtful debts.

23. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	The Group		The Company	
	2007	2006	**2007**	2006
	HK$'000	HK$'000	**HK$'000**	HK$'000
Prepayments	**70,495**	58,032	**227**	174
Deposits and other receivables	**5,902**	753	**–**	36
	76,397	58,785	**227**	210
Less: Provision for impairment of other receivables	**(1)**	(1)	**–**	–
	76,396	58,784	**227**	210

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.

23. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES *(Continued)*

Movement in provision for impairment of other receivables is as follows:

	The Group	
	2007	2006
	HK$'000	HK$'000
Balance at beginning of the year	**1**	–
Impairment loss recognised on other receivables	**–**	1
Balance at end of the year	**1**	1

24. PLEDGED BANK DEPOSITS/CASH AND BANK BALANCES

	The Group		The Company	
	2007	2006	**2007**	2006
	HK$'000	HK$'000	**HK$'000**	HK$'000
Cash and bank balances	**55,477**	1,711	**23**	380

At the balance sheet date, the cash and bank balances of the Group denominated in RMB amounted to HK$55,448,000 (2006: HK$1,258,000). RMB is not freely convertible into other currencies, however, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

Pledged bank deposits represents deposits pledged to bank to secure banking facilities granted to the Group. Deposits amounting to HK$2,799,000 (2006: Nil) have been pledged to secure bank overdrafts and general banking facilities and are therefore classified as currents assets.

25. 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.

26. OTHER PAYABLES AND ACCRUALS

	The Group		The Company	
	2007	2006	**2007**	2006
	HK$'000	HK$'000	**HK$'000**	HK$'000
Other payables	**13,946**	538	**–**	1,431
Provision	**670**	–	**670**	–
Accruals	**2,352**	2,733	**1,441**	–
	16,968	3,271	**2,111**	1,431

Other payables and accruals are non-interest bearing and the directors considered that the carrying values of other payables and accruals approximate their fair values.

27. RECEIPTS IN ADVANCE

	The Group	
	2007	2006
	HK$'000	HK$'000
Receipts in advance	**19,399**	13,677

27. RECEIPTS IN ADVANCE *(Continued)*

The amounts are sales deposits received from customers and are expected to be settled or recognised as income within one year.

Receipts in advance is non-interest bearing and the directors considered that its carrying value approximates its carrying value.

28. CONSIDERATION PAYABLE FOR ACQUISITION

	The Group	
	2007	2006
	HK$'000	HK$'000
The consideration payable is payable as follows:		
Within one year	**31,556**	–
Between one to two years	**43,552**	–
	75,108	–
Less: Amount due within one year shown under current liabilities	**(31,556)**	–
Amount due after one year	**43,552**	–

Included above is contingent consideration of HK$75,108,000 for acquisition of household furniture retail business (note 34).

29. CONVERTIBLE NOTES

On 28 July 2006, the Company issued 2% convertible notes ("Convertible Notes") with a principal amount of HK$18,000,000. Each note entitled the holder to convert to ordinary share of the Company at a conversion price of HK$1.20 each (subject to adjustment as stipulated in the agreement of the convertible notes).

The Convertible Notes carried interest at a rate 2% per annum, which was payable half-yearly in arrears. The maturity date of the Convertible Notes was the date immediately preceding the first anniversary of the date of issue of the Convertible Notes.

The fair value of the liability component was estimated at the issue date of the Convertible Notes using an equivalent market interest rate for a similar bond without a conversion option. The effective interest rate of the liability component was 10.3665% p.a.. The residual amount was assigned as the derivative liability component.

29. CONVERTIBLE NOTES *(Continued)*

The Convertible Notes issued had been split as to the liability and derivative liability components, as follows:

	2007 **HK$'000**	2006 HK$'000
Nominal value of convertible notes issued during the year	–	18,000
Derivative liability component	–	(1,339)
Direct transaction costs attributable to the liability component	–	(839)
Liability component at the issuance date	–	15,822
Interest expense charged *(note 9)*	–	722
Liability component prior to conversion	–	16,544

The Convertible Notes were fully converted into 14,999,997 ordinary shares of the Company on 1 December 2006 at the conversion price of HK$1.20 per share.

	2007 **HK$'000**	2006 HK$'000
Derivative liability at the issuance date	–	1,339
Fair value loss on derivative liability component prior to conversion	–	1,616
Fair value of derivative liability component prior to conversion	–	2,955

The estimate of the fair value of the conversion option embedded in the convertible notes is measured using Black-Scholes-Merton Option Pricing Model.

Fair value of conversion options and assumptions:

Exercise price	HK$1.20
Expected volatility	106.63%
Option life	8 months
Risk-free interest rate	3.597%

30. OBLIGATIONS UNDER FINANCE LEASE

As at 31 December 2007, the total future minimum lease payments under finance leases and their present values are as follows:

The Group

	Minimum lease payments 2007 HK$'000	Minimum lease payments 2006 HK$'000	**Present value of minimum lease payments 2007 HK$'000**	Present value of minimum lease payments 2006 HK$'000
Amount payable:				
Within one year	**21**	15	**16**	13
In the second to fifth years, inclusive	**75**	14	**61**	13
Total minimum finance lease payments	**96**	29	**77**	26
Future finance charges	**(19)**	(3)		
Total net finance lease payables	**77**	26		
Portion classified as current liabilities	**(16)**	(13)		
Non-current liabilities	**61**	13		

It is the Group's policy to lease certain of its property, plant and equipment under finance leases. The interest rate on finance lease was approximately 5% per annum and the term entered into was five years. Interest rate is fixed at the contract rate. The leases are on a fixed repayment basis and no arrangements have been entered into for contingent rental payments.

31. SHARE CAPITAL

Ordinary shares

	Par value	Number of shares	Share capital
	HK$	’000	HK$’000
Authorised:			
At 1 January 2006	0.01	50,000,000	500,000
Share consolidation *(note i)*	0.02	(25,000,000)	–
At 31 December 2006 and 1 January 2007	0.02	25,000,000	500,000
Share subdivision *(notes iv and vi)*	0.002	225,000,000	–
At 31 December 2007	0.002	250,000,000	500,000
Issued and fully paid:			
At 1 January 2006	0.01	142,140	1,421
Placing of shares *(note ii)*	0.01	28,420	284
Share consolidation *(note i)*	0.02	(85,280)	–
Convertible notes exercised *(note iii)*	0.02	15,000	300
At 31 December 2006 and 1 January 2007	0.02	100,280	2,005
Share subdivision *(note iv)*	0.004	401,120	–
Placing of shares (note v)	0.004	100,000	400
Share subdivision *(note vi)*	0.002	601,400	–
At 31 December 2007	**0.002**	**1,202,800**	**2,405**

Notes:

(i) Pursuant to an ordinary resolution passed in the special general meeting held on 17 May 2006, every two issued and unissued shares of the Company of HK$0.01 each were consolidated into one consolidated share of HK$0.02 each.

(ii) On 20 March 2006, the Company placed 28,420,000 shares of HK$0.01 each at a placing price of HK$0.064 each to seven placees through a placing agent for the purpose of increasing general working capital. The Company received net proceeds of approximately HK$1,702,000.

31. SHARE CAPITAL *(Continued)*

Ordinary shares *(Continued)*

(iii) On 1 December 2006, 14,999,997 ordinary shares of HK$0.02 each were issued by the Company as a result of the exercise of the conversion rights attached to the Convertible Notes of an aggregate principal amount of HK$18,000,000 issued by the Company on 28 July 2006 at a conversion price of HK$1.2 each.

Upon conversion of the convertible notes, the carrying value of the liability component and the derivative liability component amounted to approximately HK$16,544,000 and HK$2,955,000 respectively (Note 29).

(iv) 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.

(v) On 6 February 2007, the placing agent, on behalf of True Allied Assets Limited, a substantial shareholder of the Company placed 100,000,000 shares of HK$0.004 each at a placing price of HK$1.08 each to not less than six professional investors and on 12 February 2007, True Allied Assets Limited has subscribed for 100,000,000 new shares of the Company at a subscription price at HK$1.08 per share of the Company. The Company received net proceeds of approximately HK$104,911,000.

(vi) 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.

Share options

Details of the Company's share option scheme are included in note 32 to the financial statements.

32. SHARE OPTION SCHEME

Share options

Pursuant to the share option scheme adopted by the shareholders of the Company on 24 May 2002 (the "Share Option Scheme"), the Board of the Company may for a consideration of HK$1 offer to selected eligible persons 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 of the Company 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 quotation 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 Share Option Scheme became effective for a period of ten years commencing 24 May 2002 (the date on which the Share Option Scheme was adopted).

32. SHARE OPTION SCHEME *(Continued)*

Share options *(Continued)*

At the date of approval of these financial statements, there was no outstanding share options issued by the Company under the Share Option Scheme.

33. RESERVES

(a) The Group

The amounts of the Group's reserves and the movements therein for the current and prior years are presented in the consolidated statement of changes in equity on pages 47 to 48 of the financial statements.

The Group's contributed surplus as at 31 December 2006 and 2007 represents the amount of HK$36,000,000 transfer from share capital due to a capital reduction in the year ended 31 December 2001.

Subsidiaries of the Company established in the PRC shall appropriate 10% of its annual statutory net profit (after offsetting any prior years' losses) to the statutory reserve fund account in accordance with the PRC Company Law. When the balance of such reserve fund reaches 50% of the entity's share capital, any further appropriation is optional. The statutory reserve fund can be utilised to offset prior years' losses or to increase capital after proper approval.

Apart from the above, subsidiaries are also required to appropriate its annual statutory net profit (after offsetting any prior years' losses) to the statutory welfare fund to be utilised for employees' common welfare in accordance with the PRC Company Law. The directors recommended that 5% of statutory net profit for the entity should be appropriated to this reserve.

Movements in the statutory reserves are as follows:

	Statutory welfare fund	**Statutory reserve fund**	**Total**
	HK$'000	HK$'000	HK$'000
At 1 January 2006	–	–	–
Appropriations for the year	2,462	4,926	7,388
At 31 December 2006 and 1 January 2007	2,462	4,926	7,388
Appropriations for the year	6,130	12,261	18,391
At 31 December 2007	**8,592**	**17,187**	**25,779**

33. RESERVES *(Continued)*

(b) The Company

	Note	Share premium account HK$'000	Contributed surplus HK$'000	Accumulated losses HK$'000	Total HK$'000
At 1 January 2006		26,650	38,118	(71,241)	(6,473)
Placing of shares	*(31 note (ii))*	1,535	–	–	1,535
Shares issue expense	*(31 note (ii))*	(117)	–	–	(117)
Convertible notes exercised	*(31 note (iii))*	19,199	–	–	19,199
Release upon disposal of subsidiaries		–	(2,118)	–	(2,118)
Loss for the year	*(note 14)*	–	–	(717)	(717)
At 31 December 2006 and 1 January 2007		47,267	36,000	(71,958)	11,309
Placing of shares	*(31 note (v))*	107,600	–	–	107,600
Shares issue expense	*(31 note (v))*	(3,089)	–	–	(3,089)
Loss for the year	*(note 14)*	–	–	(8,338)	(8,338)
At 31 December 2007		**151,778**	**36,000**	**(80,296)**	**107,482**

The Company's contributed surplus as at 31 December 2006 and 2007 represents the amount of HK$36,000,000 transfer from share capital due to a capital reduction in the year ended 31 December 2001.

34. ACQUISITION OF BUSINESS

On 1 April 2007, a wholly owned subsidiary of the Group, Langfang Huari Hengyu Home Co., Ltd., acquired all the furniture assets and retail business (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, stocks, renovation in progress and furniture retail business) excluding all the liabilities in Lang Fang Huari Furniture International Exhibition Center (Hall A) in Hebei Province from Lang Fang Huari Furniture Joint Stock Co., Ltd.

34. ACQUISITION OF BUSINESS *(Continued)*

The total consideration will be satisfied in cash. The total consideration is calculated base on the audited net profit of the furniture retail business for the year ending 31 March 2008 ("Audited Net Profit") multiplied by a price-to-earnings ratio of 3 times in the event that the Audited Net Profit is less than RMB10,000,00, 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. For more details, please refer to the Company's announcement dated 24 April 2007.

On 1 April 2007, the Group paid HK$3,943,000 in cash. Pursuant to certain contingent consideration provision, the Group made further provision of approximately HK$75,108,000 payable in cash as at 31 December 2007.

The effect of net assets acquired in the transaction and the goodwill arising are as follows:

Net assets acquired:

	Acquiree's carrying amount before combination HK$'000	Fair value adjustment HK$'000	Total HK$'000
Property, plant and equipment	**3,048**	–	**3,048**
Inventories	**895**	–	**895**
			3,943
Goodwill *(note 18)*			**75,108**
			79,051
Consideration satisfied by:			
Cash			**3,943**
Consideration payable for acquisition *(note (i))*			**75,108**
			79,051

Note:

(i) At the date of acquisition, the directors considered that it is not probable to estimate the Audited Net Profit. As at 31 December 2007, the directors were able to estimated reliably the Audited Net Profit for the best estimate of the expenditure that will be required to settle the obligation. Therefore, the cost of acquisition (and therefore goodwill) was adjusted for additional consideration at 31 December 2007.

34. ACQUISITION OF BUSINESS *(Continued)*

Analysis of the net outflow in respect of the acquisition of furniture retail business:

	HK$'000
Cash paid	**(3,943)**
Bank balances and cash acquired	**–**
Net cash outflow in respect of the acquisition of furniture retail business	**(3,943)**

Goodwill arose in furniture retail business acquisition because the cost of the acquisition included a control premium paid to acquire the retail business. In addition, the consideration paid included amounts in relation to the benefit of expected synergies, revenue growth and future market development. These benefits are not recognised separately from goodwill as the future economic benefits arising from them cannot be measured reliably.

Acquisition of furniture retail business contributed HK$12,064,000 to the Group's profit between the date of acquisition and the balance sheet date.

If the acquisition of furniture retail business had been completed on 1 January 2007, total group revenue for the year would have been HK$453,854,000, and profit for the year would have been HK$119,941,000. The pro forma information is for illustrative purposes only and is not necessarily an indication of revenue and results of the Group that actually would have been achieved had the acquisition been completed on 1 January 2007, nor is it intended to be a projection of future results.

35. DISPOSAL OF SUBSIDIARIES

During the year ended 31 December 2006, the Group entered into two share sales agreements dated 27 July 2006 to dispose of (i) the Group's equity interest in Grandmass ERP Limited, a direct wholly owned subsidiary of the Company, at a consideration of HK$100,000, and (ii) the Group's equity interest in Smart Circle Enterprises Limited, a direct wholly owned subsidiary of the Company, at a consideration of HK$1. The disposal of the Group's interest in Grandmass ERP Limited was completed on 27 July 2006. The disposal of the Group's interest in Smart Circle Enterprises Limited was effective on 10 July 2006.

35. DISPOSAL OF SUBSIDIARIES *(Continued)*

Pursuant to a share sales agreement dated 28 August 2006, the Group had disposed of its 100% equity interest in Grandmass Global Investment Limited, a direct wholly owned subsidiary of the Company, at a consideration of HK$50,000. For further details of the disposal of interest in Grandmass Global Investment Limited, please refer to the Company's circular dated 19 September 2006. Summary of the effects of the disposal of subsidiaries are as follows:

	2006 HK$'000
Net liabilities disposed of:	
Property, plant and equipment	292
Cash and bank balances	241
Inventories	133
Trade receivables	156
Prepayments and other receivables	7
Amount due from an associate	142
Trade payables	(3,004)
Accruals and other payables	(5,682)
Tax payable	(149)
	(7,864)
Release of exchange reserve	140
Gain on disposal of subsidiaries from continuing operations (included contribution surplus release upon disposal)	1,158
Gain on disposal of subsidiaries from discontinued operations (Note 10)	6,716
Total consideration	150
Satisfied by:	
Cash	150

35. DISPOSAL OF SUBSIDIARIES *(Continued)*

An analysis of the net outflow of cash and cash equivalents in respect of the disposal of subsidiaries is as follows:

	2006 HK$'000
Cash consideration	150
Cash and bank balances disposed of	(241)
Net outflow of cash and cash equivalents in respect of the disposal of subsidiaries	(91)

For the period from 1 January 2006 to the respective dates of disposal, the above subsidiaries were engaged in investment holding and provision of telephone sets sale and subcontracting services, contributed approximately HK$614,000 to the Group's turnover and loss of approximately HK$873,000 to the Group's profit before taxation.

36. BANKING FACILITIES

The Group had aggregate banking facilities of HK$2,650,000 (2006: Nil) which approximately HK$8,000 were utilised as at 31 December 2007.

As at 31 December 2007, HK$2,650,000 (2006: Nil) of the banking facilities were secured by pledge of bank deposits of approximately HK$2,799,000.

37. NON-CASH TRANSACTIONS

During the year ended 31 December 2007, the Group acquired an office equipment amounted to HK$98,000 under a finance lease.

38. 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 two executive directors resigned in 2001 ("Ex-executive Directors") in respect of the breach of the Deed of Guarantee and their fiduciary duties accordingly.

38. CONTINGENT LIABILITIES *(Continued)*

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 of the Company, 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 and up to the date of approval of these financial statements.

Save as disclosed above and note 34, the Group and the Company had no contingent liabilities at the balance sheet date.

39. OPERATING LEASE ARRANGEMENTS

As lessee

The Group leases certain office properties and director's quarter under operating lease arrangements. Leases for properties are negotiated for an average term of two years.

At 31 December 2007, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	The Group	
	2007	2006
	HK$'000	HK$'000
Land and buildings		
Within one year	**201**	120
In the second to fifth years, inclusive	**50**	–
	251	120

The Company had no operating lease commitment at the balance sheet date (2006: Nil).

40. MATERIAL RELATED PARTY TRANSACTIONS

(a) Compensation of key management personnel of the Group:

	2007	2006
	HK$'000	HK$'000
Short term employee benefits	**1,065**	704
MPF Contribution	**15**	18
Total compensation paid to key management personnel	**1,080**	722

Further details of directors' emoluments are included in note 11 to the financial statements.

(b)

Name of related parties	**Nature of transaction**	*Note*	**2007 HK$'000**	2006 HK$'000
K. K. Lau & Co.	Legal fee	*(i)*	**286**	399

Note:

(i) The legal fee paid to K. K. Lau & Co. was charged at rates negotiated by reference to market rates. Mr. Lau Kwok Kee, who resigned as an independent non-executive director of the Company on 30 September 2004, is a partner of K. K. Lau & Co.

(c) A director, Mr. Li Ge, has executed personnel guarantee of HK$30,000 in favour of bank for corporate card granted to a wholly owned subsidiary of the Company. The personnel guarantee by the director was terminated on 5 July 2007.

(d) On 6 February 2007, the placing agent, on behalf of True Allied Assets Limited, a substantial shareholder of the Company placed 100,000,000 shares of HK$0.004 each at a placing price of HK$1.08 each to not less than six professional investors and on 12 February 2007. True Allied Assets Limited has subscribed for 100,000,000 new shares of the Company at a subscription price at HK$1.08 per share of the Company.

(e) On 28 July 2006, the Company placed convertible notes with principal amount of HK$18,000,000 to seven subscribers. The convertible notes were secured by a share mortgage of True Allied Assets Limited (a substantial shareholder of the Company) and the personal guarantee by Ms. Huang Ye Hua who holds 100% beneficial interest in True Allied Assets Limited to secure the obligations of the Company under the convertible notes.

41. POST BALANCE SHEET EVENTS

(a) On 12 November 2007, the Board announced that Langfang Huari Hengyu Home Co., Ltd. ("Langfang Hengyu") an indirect wholly owned subsidiary of the Company, Langfang Development Zone Yunpeng Road Jixiangniao Furniture Factory ("Jixiangniao") and Mr. Liu Qian Jin entered into the acquisition agreement, pursuant to which Langfang Hengyu conditionally agreed to acquire and Jixiangniao conditionally agreed to sell, the manufacture and wholesale business of Jixiangniao at a consideration with reference to the audited net profit to be generated from the acquired business for the year ending 31 December 2008, multiplied by a price-to-earnings ratio.

The acquisition constitutes connected transaction under GEM Listing Rules. For further details, please refer to the Company's announcement dated 12 November 2007. According to the sales and purchase agreement, the completion date of the related acquisition was completed on 1 January 2008.

The effect of net assets acquired in the transaction and the goodwill arising are as follows:

Net assets acquired:

	Acquiree's carrying amount before combination HK$'000	Fair value adjustment HK$'000	Total HK$'000
Property, plant and equipment	328	–	328
Trademark	–	4,836	4,836
Inventories	5,473	–	5,473
			10,637
Goodwill			–
			10,637

Consideration satisfied by:

Cash	10,637

41. POST BALANCE SHEET EVENTS *(Continued)*

(b) 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. For further details, please refer to the Company's announcement dated 8 January 2008.

(c) On 18 February 2008, the Group and Mr. Xiu Xianliu entered into an acquisition agreement, pursuant to which the Group conditionally agreed to acquire the 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 the further details, please refer to the Company's announcement and circular dated 19 February 2008 and 7 March 2008 respectively.

42. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 25 March 2008.

A summary of the results and of the assets, liabilities and minority interests of the Group for the last five financial years, as extracted from the published audited financial statements and restated/reclassified as appropriate, is set out below.

	Year ended 31 December				
	2007	2006	2005	2004	2003
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
RESULTS					
Turnover	**447,814**	160,414	22,656	–	1,020
Cost of sales	**(296,060)**	(110,423)	(19,987)	–	(320)
Gross profit	**151,754**	49,991	2,669	–	700
Other revenue	**303**	371	3	11	58
Other income	**1,065**	1,145	–	–	–
Selling and distribution costs	**(17,193)**	(1,041)	–	–	(768)
Administrative expenses	**(16,140)**	(7,513)	(4,602)	(4,075)	(3,826)
Impairment loss recognised in respect of goodwill of a subsidiary	**–**	–	–	–	(1,797)
Impairment loss recognised in respect of goodwill of an associate	**–**	–	–	(2,702)	(1,000)
Provision for amounts due from associates	**–**	–	(3)	(262)	–
Fair value changes on financial assets at fair value through profit or loss	**(288)**	–	–	–	–
Other operating expenses	**(416)**	(105)	(571)	(1,160)	(1,699)
Profit/(loss) from operations	**119,085**	42,848	(2,504)	(8,188)	(8,332)
Finance costs	**(3)**	(724)	(3)	(3)	–
Share of results of an associate	**–**	–	–	–	(480)
Gain on disposal of subsidiaries	**–**	1,158	–	–	510
Gain on deemed disposal of partial interest in an associate	**–**	–	–	135	313
Loss on disposal of a long term investment	**–**	–	–	–	(1,972)
Fair value loss on derivative liability	**–**	(1,616)	–	–	–
Profit/(loss) before taxation	**119,082**	41,666	(2,507)	(8,056)	(9,961)
Taxation	**(984)**	–	–	–	–

FIVE YEAR SUMMARY

	Year ended 31 December				
	2007	2006	2005	2004	2003
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Profit/(loss) for the year from continuing operations	**118,098**	41,666	(2,507)	(8,056)	(9,961)
Discontinued operations					
Profit/(loss) for the year from discontinued operations	**–**	5,852	(11,629)	(6,085)	–
Profit/(loss) for the year	**118,098**	47,518	(14,136)	(14,141)	(9,961)
Attributable to:					
Equity holders of the Company	**118,098**	47,518	(14,136)	(14,023)	(9,840)
Minority interests	**–**	–	–	(118)	(121)
	118,098	47,518	(14,136)	(14,141)	(9,961)

	As at 31 December				
	2007	2006	2005	2004	2003
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
ASSETS, LIABILITIES AND MINORITY INTERESTS					
Total assets	**432,731**	99,256	5,470	12,865	16,216
Total liabilities	**(130,946)**	(36,086)	(11,746)	(9,485)	(903)
Minority interests	**–**	–	–	–	–