

\* For identification purpose only

# First Quarterly Report 2007



名 家 國 際

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

(Incorporated in Bermuda with limited liability)

Stock Code : 8108

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

## FIRST QUARTERLY RESULTS (UNAUDITED)

The board of Directors (the "Board") of FAVA International Holdings Limited (the "Company") presents the unaudited consolidated results of the Company and its subsidiaries (collectively referred to as the "Group") for the three months ended 31 March 2007 together with the comparative figures.

## CONSOLIDATED INCOME STATEMENT (UNAUDITED)

*For the three months ended 31 March 2007*

	Notes	2007 HK\$'000	2006 HK\$'000 (Restated)
Turnover	2	<b>58,656</b>	21,230
Cost of sales		<b>(38,765)</b>	(16,636)
Gross profit		<b>19,891</b>	4,594
Other revenue		<b>220</b>	–
Administrative expenses		<b>(3,538)</b>	(865)
Other operating expenses		<b>(648)</b>	(9)
Profit from operations		<b>15,925</b>	3,720
Finance costs		<b>(284)</b>	–
Profit before taxation		<b>15,641</b>	3,720
Taxation	3	<b>(696)</b>	–
Profit for the period from continuing operations		<b>14,945</b>	3,720
Discontinued operations			
Loss for the period from discontinued operations		–	(235)
Net profit for the period		<b>14,945</b>	3,485
Interim dividend	4	–	–
Profit per share from continuing and discontinued operations			
– basic	5	<b>0.034</b>	0.024
Profit per share from continuing operations			
– basic	5	<b>0.034</b>	0.026

## CONSOLIDATED BALANCE SHEET (UNAUDITED)

As at 31 March 2007

	Note	2007 HK\$'000	2006 HK\$'000
<b>NON-CURRENT ASSETS</b>			
Fixed assets		<b>74,910</b>	364
<b>CURRENT ASSETS</b>			
Inventories	7	<b>50,043</b>	5,598
Trade and bills receivables		<b>15,379</b>	4,352
Amount due from a former subsidiary		<b>51</b>	–
Prepayments, deposits and other receivables	8	<b>65,894</b>	3,804
Cash and bank balances	9	<b>58,655</b>	2,566
		<b>190,022</b>	16,320
<b>CURRENT LIABILITIES</b>			
Trade payables		<b>30,570</b>	5,615
Accrued liabilities and other payables	10	<b>36,090</b>	11,230
Received in advance		<b>13,217</b>	–
Amount due to an associate		–	2
Amount due to a shareholder		–	700
Tax payable		<b>727</b>	186
Obligations under finance lease-due within one year		<b>9</b>	13
		<b>80,613</b>	17,746
<b>NET CURRENT ASSETS (LIABILITIES)</b>		<b>109,409</b>	(1,426)
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		<b>184,319</b>	(1,062)
<b>NON-CURRENT LIABILITIES</b>			
Obligations under finance lease-due after one year		<b>13</b>	26
<b>NET ASSETS (LIABILITIES)</b>		<b>184,306</b>	(1,088)
<b>CAPITAL AND RESERVES</b>			
Capital	11	<b>2,405</b>	1,705
Reserves		<b>181,901</b>	(2,793)
		<b>184,306</b>	(1,088)

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (UNAUDITED)

For the three months ended 31 March 2007

	Share Capital HK\$'000	Share Premium HK\$'000	Contributed Surplus HK\$'000	Accumulated Losses HK\$'000	Exchange Reserve HK\$'000	Statutory Reserve HK\$'000	Total HK\$'000
At 1 January 2006	1,421	26,650	36,527	(70,734)	(140)	-	(6,276)
Placing of new shares	284	-	-	-	-	-	284
Premium arising from placing of new shares, net of expenses	-	1,419	-	-	-	-	1,419
Net profit for the three months ended 31 March 2006	-	-	-	3,485	-	-	3,485
At 31 March 2006	1,705	28,069	36,527	(67,249)	(140)	-	(1,088)
At 1 January 2007	2,005	47,267	36,000	(30,604)	1,114	7,388	63,170
Subscription of new shares	400	-	-	-	-	-	400
Premium arising from subscription of new shares, net of expenses	-	104,511	-	-	-	-	104,511
Exchange differences arising from translation of financial statements of subsidiaries	-	-	-	-	1,280	-	1,280
Net profit for the three months ended 31 March 2007	-	-	-	14,945	-	-	14,945
At 31 March 2007	2,405	151,778	36,000	(15,659)	2,394	7,388	184,306

Notes:

## 1. Basis of preparation

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

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

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

## 2. Turnover

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

	<b>Three months ended</b>	
	<b>31 March</b>	
	<b>2007</b>	2006
	<b>HK\$'000</b>	HK\$'000
	<b>(Unaudited)</b>	(Unaudited)
Sales of household products	<b>58,656</b>	21,230
Provision of telephone sets subcontracting services	–	288
	<b>58,656</b>	21,518
Attributable to continuing operation reported in the consolidated income statement	<b>58,656</b>	21,230
Telephone sets subcontracting services attributable to discontinued operations	–	288
	<b>58,656</b>	21,518

### 3. Taxation

No provision for Hong Kong profits tax has been made as the Group has no assessable profit in Hong Kong for the three months ended 31 March 2007 (2006: Nil).

The PRC enterprise income tax ("EIT") represents tax charges on the assessable profits of the PRC subsidiaries of the Group at the prevailing tax rates applicable. One of the two PRC subsidiaries of the Group, Langfang Hengyu Home Co. Limited\* (廊坊恆宇家居有限公司), which is categorised as a foreign investment enterprise and is entitled to preferential tax treatments including full exemption from EIT for two years starting from their first profit-making year following by a 50% reduction for the next consecutive three years. EIT charge for the other PRC subsidiary of the Group, Lang Fang Tian Feng Home Co., Limited\* (廊坊天豐家居有限公司), for the three months ended 31 March 2007 was HK\$696,000 (2006: Nil).

There was no significant unprovided deferred taxation for the three months ended 31 March 2007 (2006: Nil).

Deferred tax had not been provided as there were no significant timing differences at the period-end date (2006: Nil).

### 4. Interim Dividend

No dividends have been paid or declared by the Company for the three months ended 31 March 2007 (three months ended 31 March 2006: Nil).

### 5. Profit per share

The calculation of the basic profit per share is based on the Group's net profit for the three months ended 31 March 2007 of approximately HK\$14,945,000 (three months ended 31 March 2006: net profit of HK\$3,485,000), and the weighted average of 435,496,000 ordinary shares (three months ended 31 March 2006: 145,613,000 ordinary shares) in issue during the three months ended 31 March 2007 after adjusting the effects of the subscription of new shares on 12 February 2007. The basic profit per share for the three months ended 31 March 2006 had been adjusted accordingly.

Diluted profit per share for the three months ended 31 March 2007 and 2006 have not been disclosed as no diluting events existed during that period.

## 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.

Segment information is presented by way of the Group's primary segment reporting basis, by business segment.

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

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

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

Segment liabilities comprise operating liabilities.

Unallocated assets and liabilities comprise items such as corporate borrowings.

(a) *Business segments*

The following tables present revenue, profit/(loss) and certain asset, liability and expenditure information for the Group's business segments for the three months ended 31 March 2007 and 2006.

	Continuing		Discontinued		Total	
	2007	2006	2007	2006	2007	2006
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Segment revenue						
Sales to external customers	58,656	21,230	-	288	58,656	21,518
Segment results	19,891	4,593	-	16	19,891	4,609
Interest income and unallocated corporate revenue					220	15
Unallocated corporate expenses					(4,186)	(1,139)
Finance costs					(284)	-
Profit before taxation					15,641	3,485
Taxation					696	-
Net profit for the period					14,945	3,485

	Continuing		Discontinued		Total	
	Manufacture and sale of household products		Telephone sets subcontracting services		2007	2006
	2007	2006	2007	2006	2007	2006
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
<b>Assets and liabilities</b>						
Segment assets	258,965	14,732	-	962	258,965	15,694
Corporate and other unallocated assets					5,967	990
Total assets					264,932	16,684
Segment liabilities	79,658	7,668	-	7,651	79,658	15,319
Corporate and other unallocated liabilities					968	2,453
Total liabilities					80,626	17,772

	Continuing		Discontinued		Unallocated		Total	
	Manufacture and sale of household products		Telephone sets subcontracting services		2007	2006	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
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
<b>Other segment information</b>								
Depreciation	1,675	-	-	10	-	-	1,675	10
Capital expenditure	76,350	-	-	-	-	-	76,350	-

(b) *Geographical segments*

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

	Continuing		Discontinued		Total	
	Manufacture and sales of household products		Telephone sets subcontracting services			
	2007	2006	2007	2006	2007	2006
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Sales						
The PRC	48,889	19,181	-	288	48,889	19,469
USA	1,003	2,049	-	-	1,003	2,049
European Union	8,548	-	-	-	8,548	-
Others	216	-	-	-	216	-
	58,656	21,230	-	288	58,656	21,518

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

7. **Inventories**

	2007	2006
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Raw materials	3,048	2,644
Work in progress	27,777	68
Finished goods	19,218	2,886
	50,043	5,598

**8. Prepayments, Deposits and Other Receivables**

	<b>2007</b>	2006
	<b>HK\$'000</b>	HK\$'000
	<b>(Unaudited)</b>	(Unaudited)
Prepayments	<b>8,395</b>	74
Deposits and other receivables	<b>57,499</b>	3,730
	<b>65,894</b>	3,804
Less: Provision for impairment of other receivables	-	-
	<b>65,894</b>	3,804

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.

**9. Cash and Bank Balances**

	<b>2007</b>	2006
	<b>HK\$'000</b>	HK\$'000
	<b>(Unaudited)</b>	(Unaudited)
Cash and bank balances	<b>58,655</b>	2,566

At the balance sheet date, the cash and bank balances of the Group denominated in Renminbi ("RMB") amounted to HK\$51,737,000 (2006: HK\$910,000). RMB is not freely convertible into other currencies, however, under the Foreign Exchange Control Regulations and the Administration of Settlement, Sale and Payment of Foreign Exchange Regulations of the PRC, the Group is permitted to exchange RMB for other currencies through banks which are authorised to conduct foreign exchange business.

**10. Accrued Liabilities and Other Payables**

	<b>2007</b> <b>HK\$'000</b> <b>(Unaudited)</b>	2006 <i>HK\$'000</i> <i>(Unaudited)</i>
Accruals	<b>1,324</b>	1,851
Other payables	<b>34,766</b>	9,379
	<b>36,090</b>	11,230

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

**11. Share Capital***Ordinary shares*

	<b>Par value</b> <i>HK\$</i>	<b>Number of shares</b> <i>'000</i>	<b>Share capital</b> <i>HK\$'000</i>
<b>Authorised:</b>			
At 1 January 2006 and 31 March 2006	0.01	50,000,000	500,000
At 1 January 2007 ( <i>note i</i> )	0.02	25,000,000	500,000
Share subdivision ( <i>note ii</i> )	0.004	100,000,000	–
At 31 March 2007	0.004	125,000,000	500,000
<b>Issued and fully paid:</b>			
At 1 January 2006	0.01	142,140	1,421
Placing of shares ( <i>note iii</i> )	0.01	28,420	284
At 31 March 2006	0.01	170,560	1,705
At 1 January 2007 ( <i>note i</i> )	0.02	100,280	2,005
Share subdivision ( <i>note ii</i> )	0.004	401,120	–
Subscription of shares ( <i>note iv</i> )	0.004	100,000	400
At 31 March 2007	0.004	601,400	2,405

- (i) By an ordinary resolution approved at the special general meeting held on 17 May 2006, every two (2) issued and unissued shares in the Company of par value of HK\$0.01 each were consolidated into one (1) consolidated share of HK\$0.02 each.
- (ii) Pursuant to an ordinary resolution passed in the special general meeting held on 26 January 2007, each of the existing issued and unissued shares of the Company of HK\$0.02 each was divided into five subdivided shares of HK\$0.004 each.
- (iii) 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 places through a placing agent for the purpose of increasing general working capital. The Company received net proceeds of approximately HK\$1,702,000.
- (iv) 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 (the "Placing Shares") at a price of HK\$1.08 per share; and (ii) the Vendor has conditionally agreed to subscribe for such number of new shares equivalent to the number of shares placed, i.e. 100,000,000 new shares at a subscription price of HK\$1.08 each per share.

The placing of then existing 100,000,000 shares to not less than six professional investors was completed on 6 February 2007 at a placing price of HK\$1.08 per share. The subscription of 100,000,000 new shares to 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 general working capital.

## MANAGEMENT DISCUSSION AND ANALYSIS

### Overall Financial and Business Review and Future Prospect

For the three months ended 31 March 2007, the Group's turnover amounted to approximately HK\$58,656,000 (three months ended 31 March 2006: HK\$21,230,000) while the net profit attributable to the shareholders amounted to approximately HK\$14,945,000 (three months ended 31 March 2006: net profit of HK\$3,485,000). The improvement in turnover was mainly the result of the acquisition of seven solid wood production lines in February 2007. The production capacity of solid wood furniture has been strengthened further.

Growing recognition of the solid wood furniture in the PRC and continuous growth in overseas orders led to the further improvement in sales.

By the end of February 2007, the Group has completed acquisition of 7 solid wood furniture production lines ("Production Lines") of Lang Fang Huari Furniture Joint Stock Co., Limited, 2 of which were rented under operating lease in 2006. As the 5 new Production Lines were only merged into the Group in March 2007, the quarterly results do not fully reflect the turnover and profit contribution potential of the 5 Production Lines. The Group expects that the turnover will increase significantly in the second quarter.

In expanding the business, the Group has endeavoured to undergo diversification and on the basis of the existing production of solid wood furniture, the Group aims to develop into a comprehensive enterprise providing a blend of production and retailing services. To expand the retailing business of the Group and leveraged on the experience in successful acquisition of retailing business in April this year (details have been disclosed in the paragraphs headed "Acquisition of Retail Business" below), the Group has taken active actions in exploring business opportunities and is expecting to undergo large scale acquisition of retailing business in the second half of the year. In actively exploring and undergoing large scale acquisitions of retailing business, the Group will be committed to become an enterprise with comprehensive services. It is expected that the Group's business will be contributed by production and retailing services in equal proportion within 3 years.

In order to further expand the business, the Group endeavours to develop the PRC market and has actively sought for the opportunities to acquire other brands. Along with the expansion of production capacity of the Group, the Group's target to diversify brands and sales networks will become attainable.

## DISCLOSURE OF INTEREST 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, underlying shares and debentures

As at 31 March 2007, the interests and short positions of the Directors and chief executive of the Company in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO), which are required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 & 8 of Part XV of the SFO (including interests and short positions which they are taken or deemed to have under such provisions of the SFO) or which are required pursuant to Section 352 of the SFO to be entered in the register referred to therein, or as otherwise notified to the Company and the Stock Exchange pursuant to the required standard of dealings by directors as referred to in Rules 5.46 to 5.67 of the GEM Listing Rules were as follows:

#### *Long positions in ordinary shares of HK\$0.004 each of the Company*

Name of director	Number of shares held, capacity and nature of interest					Total	Approximate percentage of the Company's total issued share capital
	Directly	Through	Through	Beneficiary			
	beneficially owned	spouse or minor children	controlled corporation				
Mr. Li Ge	18,030,000	-	-	-	-	18,030,000	3%

Save as disclosed above, as at 31 March 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 or short positions in the shares, underlying shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) that were required to be entered into the register kept by the Company pursuant to Section 352 of the SFO or were required to be notified to the Company and the Stock Exchange pursuant to the GEM Listing Rules.

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

So far as were known to the Directors or chief executive of the Company, as at 31 March 2007, the following persons (other than the Directors and chief executive of the Company as disclosed above) had interests and/or short positions of 5% or more of the shares and underlying shares of the Company as recorded in the register of interests required to be kept by the Company pursuant to Section 336 of the SFO:

*Long positions in the ordinary shares of HK\$0.004 each of the Company*

<b>Name</b>	<b>Nature and capacity of interest</b>	<b>Number of shares held</b>	<b>Approximate percentage of interest</b> <i>(Note 1)</i>
True Allied Assets Limited	Beneficial owner	129,226,500	21.49%
Ms. HUANG Ye-hua <i>(Note 2)</i>	Interest of controlled corporation	129,226,500	21.49%
Sino Hope Investments Limited	Beneficial owner	34,976,665	5.82%
Mr. Zhao Jiangong <i>(Note 3)</i>	Interest of controlled corporation	34,976,665	5.82%
INVESCO Hong Kong Limited	Manager/adviser of various accounts	30,500,000	5.07%

*Note:*

- (1) The percentage is calculated by dividing the number of shares interested or deemed to be interested by the then existing 601,399,985 total issued shares as at 31 March 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.

Save as disclosed above, as at 31 March 2007, the Directors were not aware of any other person, other than the Directors and chief executive of the Company, whose interests are set out in the section headed “Directors’ and chief executive’s interests and short positions in shares, underlying shares and debentures” above, had interests or short positions in the shares or underlying shares of the Company that was required to be recorded pursuant to Section 336 to the SFO.

## 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 Company was subdivided into five (5) subdivided shares of HK\$0.004 each. Immediately before the share subdivision, the authorised share capital of the Company was HK\$500,000,000, which was divided into 25,000,000,000 shares of which 100,279,997 shares were in issue. Immediately after the share subdivision, the authorised share capital of the Company was HK\$500,000,000 divided into 125,000,000,000 subdivided shares of which 501,399,985 subdivided shares were in issue.

## 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 Placing Shares 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 to 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 general working capital.

## LETTERS OF INTENT

On 31 January 2007, Lang Fang Hengyu Home Co., Ltd\* (廊坊恆宇家居有限公司) (“Langfang Hengyu”), an indirect wholly-owned subsidiary of the Company (i) entered into a letter of intent with Beijing Glory Investment Co., Ltd\* (北京錦繡投資有限公司) (“Beijing Glory”), setting out the basic understanding between the parties thereto in connection with

proposed acquisition by Langfang Hengyu of the furniture retail business of Beijing Glory in Beijing City (“Beijing LOI”); and (ii) entered into another letter of intent with Lang Fang Huari Furniture Joint Stock Co., Limited (“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 (“Langfang LOI”).

The letters of intent do not constitute the relevant parties’ legally binding commitments as to the proposed acquisitions, which are subject to the execution and completion of formal sale and purchase agreements by the relevant parties. However, the letters of intent constitute legally binding obligation on the part of Beijing Glory and Huari Furniture in favour of Langfang 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).

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

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

## ACQUISITION OF RETAIL BUSINESS

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 (the "Audited Net Profit") multiplied by a price-to-earnings ratio of 3 times in the event that the Audited Net Profit is less than RMB10,000,000, or 4 times in the event that the Audited Net Profit is more than or equals to RMB10,000,000 but less than or equals to RMB15,000,000, or 4.9 times in the event that the Audited Net Profit exceeds RMB15,000,000. In the event that the Audited Net Profit exceeds RMB20,000,000, the maximum amount of the consideration payable will equal to RMB20,000,000 multiplied by a price-to-earnings ratio of 4.9 times, that is RMB98,000,000. In any event, the minimum consideration of the Furniture Retail Business shall equal to the net asset value of the Furniture Retail Business as at 22 March 2007 as reported in the asset valuation report for the Furniture Retail Business adopting 22 March 2007 as the reference date and issued by Beijing Chong Tai Hua Heng Assets Valuation Company Limited\* (北京中泰華恒資產評估有限公司), a qualified valuer under the laws and regulations of the PRC and agreed by Langfang Hengyu and Huari Furniture.

Completion of the acquisition of the Furniture Retail Business took place on 2 April 2007. As the Furniture Retail Business was merged into the Group in April 2007, the quarterly results do not reflect the turnover and profit contribution potential of the Furniture Retail Business.

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

## AUDIT COMMITTEE

The Company has established an audit committee in July 2000 with its written terms of reference being in compliance with Rules 5.28 to 5.33 of the GEM Listing Rules. Approved by the then Directors attending the Board meeting held on 7 December 2006, the terms of reference set out in "A Guide for Effective Audit Committees", published by HKICPA in February 2002, were adopted as written terms of reference for the audit committee of the Company. As at 31 March 2007, the audit committee comprised three members, namely Mr. LEE Yuen Kwong, Mr. YANG Dongli and Mr. YANG Jie, being independent non-executive Directors of the Company.

The primary duties of the audit committee are to review and supervise the financial reporting process and internal control systems of the Group and to provide advice and comments to the Board. The audit committee has reviewed the Group's first quarterly results announcements and reports for the three months ended 31 March 2007 and provided advice and recommendations to the Board. After the review of the financial statements, the members of the audit committee were of the opinion that such statements comply with the applicable accounting standards, the GEM Listing Rules and other applicable laws and regulations and that adequate disclosure had been made.

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

For the three months ended 31 March 2007, there was no purchase, sale or redemption by the Company, or any of its subsidiaries, of the Company's listed securities.

## COMPETING INTEREST

None of the Directors or the management shareholders of the Company (if any) (as defined in the GEM Listing Rules) or their respective associates had any interest in any business which competed or might compete with the business of the Group for the three months ended 31 March 2007.

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

Hong Kong, 14 May 2007

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

\* *for identification purpose only*