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

(Incorporated in Bermuda with limited liability)
Stock Code : 8108



First Quarterly Report
2008



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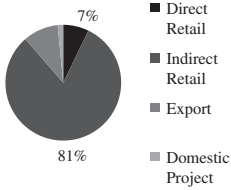
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This report, for which the directors (the “Director(s)”) of FAVA International Holdings Limited collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on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

HIGHLIGHTS

Turnover for 2007



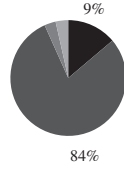
88% for the PRC Retailing

Turnover for 07 Q1



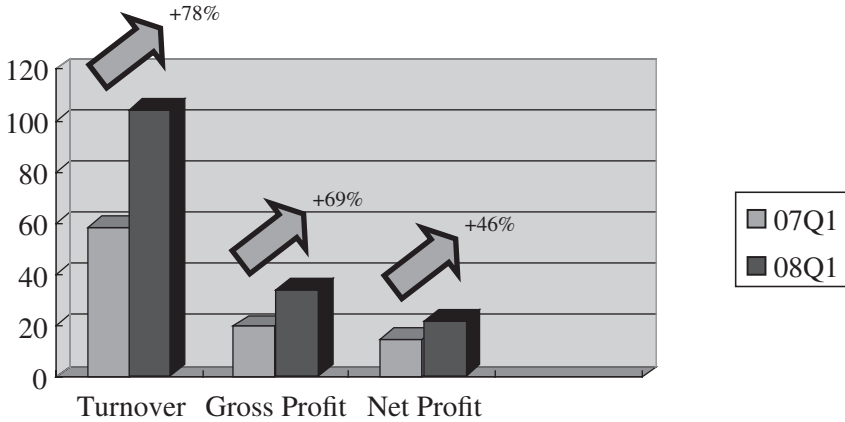
83% for the PRC Retailing

Turnover for 08 Q1



93% for the PRC Retailing

QUARTER-TO-QUARTER GROWTH



FIRST QUARTERLY RESULTS (UNAUDITED)

The board of directors (the “Board”) of FAVA International Holdings Limited (the “Company”) is pleased to announce the unaudited consolidated results of the Company and its subsidiaries (the “Group”) for the three months ended 31 March 2008 together with the comparative figures.

CONSOLIDATED INCOME STATEMENT (UNAUDITED)

For the three months ended 31 March 2008

	Notes	Three months ended 31 March	
		2008 HK\$'000	2007 HK\$'000
Turnover	2	104,542	58,656
Cost of sales		(70,834)	(38,765)
Gross profit		33,708	19,891
Other revenue		244	220
Operating expenses		(6,827)	–
Administrative expenses		(5,016)	(3,538)
Other operating expenses		(218)	(648)
Profit from operations		21,891	15,925
Finance costs		(127)	(284)
Profit before taxation		21,764	15,641
Taxation	3	–	(696)
Profit attributable to shareholders of the Company		21,764	14,945
Interim dividend	4	–	–
		HK cents	HK cents
Earnings per share			
– Basic	5	1.8	3.4
– Diluted	5	–	3.4

CONSOLIDATED BALANCE SHEET

		31 March 2008 HK\$'000 (Unaudited)	31 December 2007 HK\$'000 (Audited)
NON-CURRENT ASSETS			
Property, plant and equipment		76,398	76,640
Goodwill		75,108	75,108
Intangible assets		6,356	7,936
Long term prepayments		14,713	14,165
		172,575	173,849
CURRENT ASSETS			
Inventories	7	158,739	101,872
Trade and bills receivables	8	39,595	22,338
Prepayments, deposits and other receivables	9	96,177	76,396
Pledged bank deposits		-	2,799
Cash and bank balances	10	25,761	55,477
		320,272	258,882
LESS: CURRENT LIABILITIES			
Trade payables	11	41,591	19,394
Other payables and accrued liabilities	12	19,253	16,968
Received in advance		21,136	19,399
Consideration payable for acquisition			
- due within one year		31,556	31,556
Obligations under finance lease			
- due within one year		12	16
		113,548	87,333
NET CURRENT ASSETS		206,724	171,549
TOTAL ASSETS LESS CURRENT LIABILITIES		379,299	345,398
LESS: NON-CURRENT LIABILITIES			
Consideration payable for acquisition			
- due after one year		43,552	43,552
Obligations under finance lease - due after one year		61	61
		43,613	43,613
NET ASSETS		335,686	301,785
CAPITAL AND RESERVES			
Share Capital	13	2,405	2,405
Reserves		333,281	299,380
Total equity attributable to equity Holders of the Company		335,686	301,785

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (UNAUDITED)

	Share Capital	Share Premium	Contributed Surplus	Accumulated (Losses)/ Profits	Exchange Reserve	Statutory Reserves	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
<i>For the three months ended</i>							
<i>31 March 2007</i>							
At 1 January 2007	2,005	47,267	36,000	(30,604)	1,114	7,388	63,170
Placing of new shares	400	-	-	-	-	-	400
Premium arising from placing of new shares, net of expenses	-	104,511	-	-	-	-	104,511
Exchange difference 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
<i>For the three months ended</i>							
<i>31 March 2008</i>							
At 1 January 2008	2,405	151,778	36,000	69,103	16,720	25,779	301,785
Exchange differences arising from translation of financial statements of subsidiaries	-	-	-	-	12,137	-	12,137
Net profit for the three months ended 31 March 2008	-	-	-	21,764	-	-	21,764
At 31 March 2008	2,405	151,778	36,000	90,867	28,857	25,779	335,686

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 disclosure requirements required by the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited (the "GEM Listing Rules") and the Companies Ordinance (Chapter 32 of the Laws of Hong Kong).

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

The accounting policies adopted in preparing the unaudited condensed consolidated financial statements for the three months ended 31 March 2008 are consistent with those adopted in the annual report of the Company for the year ended 31 December 2007.

2. Turnover

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

	Three months ended	
	31 March	
	2008	2007
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Manufacture and sales of household products	104,542	58,656



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 2008 (three months ended 31 March 2007: Nil).

The PRC enterprise income tax (“EIT”) represents tax charges on the assessable profits of the PRC subsidiaries of the Group at the prevailing tax rates applicable. One of the two PRC subsidiaries of the Group, Langfang Huari Hengyu Home Co. Limited* (廊坊華日恒宇家居有限公司), which is formerly known as Langfang Hengyu Home Co., Ltd* (廊坊恒宇家居有限公司), is categorised as a foreign investment enterprise and is entitled to preferential tax treatments (“Preferential Tax Treatments”) including full exemption from EIT for the initial two years starting from its first profit-making year following by a 50% reduction for the next consecutive three years, and 2007 is its first profit-making year. The other PRC subsidiary of the Group, Lang Fang Tian Feng Home Co., Limited* (廊坊天豐家居有限公司) is also entitled to Preferential Tax Treatments, 2005 was its first profit-making year, no EIT charge for the three months ended 31 March 2008 (three months ended 31 March 2007: HK\$696,000).

There was no significant unprovided deferred taxation for the three months ended 31 March 2008 (three months ended 31 March 2007: Nil).

Deferred tax had not been provided as there were no significant temporary differences at the period-end date (three months ended 31 March 2007: Nil).

4. **Interim Dividend**

No dividend has been paid or declared by the Company for the three months ended 31 March 2008 (three months ended 31 March 2007: Nil).

5. **Earnings per share**

The calculation of the basic earnings per share is based on the Group’s profit attributable to ordinary equity holders of the Company for the three months ended 31 March 2008 of approximately HK\$21,764,000 (three months ended 31 March 2007: approximately HK\$14,945,000), and the weighted average of 1,202,799,970 ordinary shares (three months ended 31 March 2007: 435,496,000 ordinary shares) in issue during the three months ended 31 March 2008. The basic earnings per share for the three months ended 31 March 2007 is adjusted accordingly.

There was no diluting event existing during the three months ended 31 March 2008 and 2007.

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 represents 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) Indirect retail of household products and others; and
- (ii) Direct retail of household products.

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

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

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

Segment liabilities comprise operating liabilities.

Unallocated assets and liabilities comprise items such as corporate borrowings.

(a) **Business segments**

The following tables present revenue, profit and certain asset, liability and expenditure information for the Group's business segments for the three months ended 31 March 2007 and 2008.

	Direct retail of household products		Indirect retail of household products and others		Total	
	2008	2007	2008	2007	2008	2007
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
	<i>(Unaudited)</i>	<i>(Unaudited)</i>	<i>(Unaudited)</i>	<i>(Unaudited)</i>	<i>(Unaudited)</i>	<i>(Unaudited)</i>
Segment revenue						
Sales to external customers	9,696	-	94,846	58,656	104,542	58,656
Segment results	4,642	-	29,066	19,891	33,708	19,891
Interest income and unallocated gains					244	220
Corporate and other unallocated expenses					(12,061)	(4,186)
Finance costs					(127)	(284)
Profit before taxation					21,764	15,641
Taxation					-	(696)
Profit for the period					21,764	14,945

	Direct retail of		Indirect retail of		Total	
	household products		household			
			products and others			
	2008	2007	2008	2007	2008	2007
<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	
<i>(Unaudited)</i>	<i>(Unaudited)</i>	<i>(Unaudited)</i>	<i>(Unaudited)</i>	<i>(Unaudited)</i>	<i>(Unaudited)</i>	
Assets and liabilities						
Segment assets	10,754	-	405,824	258,965	416,578	258,965
Corporate and other unallocated assets					76,269	5,967
Total assets					492,847	264,932
Segment liabilities	6,378	-	73,673	79,658	80,051	79,658
Corporate and other unallocated liabilities					77,110	968
Total liabilities					157,161	80,626

	Direct retail of		Indirect retail of		Unallocated		Total	
	household products		household products					
			and others					
	2008	2007	2008	2007	2008	2007	2008	2007
<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	
<i>(Unaudited)</i>	<i>(Unaudited)</i>	<i>(Unaudited)</i>	<i>(Unaudited)</i>	<i>(Unaudited)</i>	<i>(Unaudited)</i>	<i>(Unaudited)</i>	<i>(Unaudited)</i>	
Other segment information								
Depreciation	412	-	1,486	1,675	-	-	1,898	1,675
Amortization of intangible assets	-	-	513	-	-	-	513	-
Capital expenditure	-	-	55	76,350	-	-	55	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 of the Group are located in the PRC (including Hong Kong). Over 95% of the Group's results, assets, 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.

	Direct retail of		Indirect retail of		Total	
	household products		household products and others			
	2008	2007	2008	2007	2008	2007
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Sales						
The PRC	9,685	-	91,541	48,889	101,226	48,889
USA	-	-	551	1,003	551	1,003
European Union	-	-	2,269	8,548	2,269	8,548
Others	-	-	496	216	496	216
	9,685	-	94,857	58,656	104,542	58,656

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

7. Inventories

	As at 31 March 2008 HK\$'000 (Unaudited)	As at 31 December 2007 HK\$'000 (Audited)
Raw materials	104,482	47,797
Work in progress	20,850	25,853
Finished goods	33,407	28,222
	158,736	101,872

8. Trade and bills receivables

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

	As at 31 March 2008 HK\$'000 (Unaudited)	As at 31 December 2007 HK\$'000 (Audited)
0 – 60 days	24,202	18,027
61 – 90 days	10,833	1,320
91 – 180 days	2,274	967
Over 180 days	2,286	2,024
	39,595	22,338

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

9. Prepayments, deposits and other receivables

	As at 31 March 2008 HK\$'000 (Unaudited)	As at 31 December 2007 HK\$'000 (Audited)
Prepayments	28,907	70,495
Deposits and other receivables	67,270	5,902
	96,177	76,397
Less: provision for impairment of other receivables	-	(1)
	96,177	76,396

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

10. Cash and bank balances

	As at 31 March 2008 HK\$'000 (Unaudited)	As at 31 December 2007 HK\$'000 (Audited)
Cash and bank balances	25,761	55,477

At the balance sheet date, the cash and bank balances of the Group denominated in Renminbi ("RMB") amounted to approximately HK\$24,990,000 (as at 31 March 2007: approximately HK\$51,737,000). RMB is not freely convertible into other currencies. However, under the Foreign Exchange Control Regulations and the Administration of Settlement, Sale and Payment of Foreign Exchange Regulations of the PRC, the Group is permitted to exchange RMB for other currencies through banks which are authorised to conduct foreign exchange business.

11. Trade payables

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

	As at 31 March 2008 HK\$'000 (Unaudited)	As at 31 December 2007 HK\$'000 (Audited)
0 – 60 days	20,672	13,029
61 – 90 days	10,440	1,434
91 – 180 days	6,137	4,181
Over 180 days	4,342	750
	41,591	19,394

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

12. **Other payables and accrued liabilities**

	As at 31 March 2008 HK\$'000 (Unaudited)	As at 31 December 2007 HK\$'000 (Audited)
Other payables	15,307	13,946
Accruals	3,276	2,352
Provision for claim	670	670
	19,253	16,968

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

13. **Share capital**

Ordinary shares

	Par Value HK\$	Number of shares '000	Shares capital HK\$'000
Authorised:			
At 31 December 2007	0.002	250,000,000	500,000
At 1 January 2008	0.002	250,000,000	500,000
At 31 March 2008	0.002	250,000,000	500,000
Issued and fully paid:			
At 31 December 2007	0.002	1,202,800	2,405
At 1 January 2008	0.002	1,202,800	2,405
At 31 March 2008	0.002	1,202,800	2,405



MANAGEMENT DISCUSSION AND ANALYSIS

Financial and Business Review

The Group acquired from Lang Fang Huari Furniture Joint Stock Co. Ltd. (“Huari”) seven solid wood furniture production lines, Huari’s retail franchising business (indirect retail business) and other non-core businesses in the first quarter of 2007, and subsequently underwent business restructuring with success.

Upon completion of the acquisition of Huari’s solid wood furniture production lines and the abovementioned business, the Group successfully transformed itself into a dominant player in the PRC’s quality home product industry, emerging as one of the top four largest solid wood furniture manufacturers as well as the market leader in mid-to-high-end solid wood furniture segment in the PRC. Owning the largest retail network in the PRC’s mid-to-high-end solid wood furniture segment, the Group’s businesses encompass the entire industry value chain from the design, manufacturing, sales and distribution to retail network operations.


Original Design

The Group has five major solid wood product series, comprising: *Sunny California* with American style, *Modern Oriental* with Asian style, *Norway Forest* with Northern European style, *Sunny Mediterranean Sea* with Mediterranean style, as well as *Greenwich* with Western European style. Each series has different design theme with over 1,000 product designs. In the first quarter of 2008, the Group launched a new product series called Chinese Era based on Chinese elements, which received encouraging initial response from local franchisees during a furniture tradeshow in Guangdong with numerous franchising applications.

The acquisition of Jixiangniao Furniture Factory (“Jixiangniao”) completed earlier this year has further expanded the Group’s product offerings to fabric furniture, and extended its customer base to the youth and mid-end market segment in the PRC. Together with Huari’s six solid wood furniture product series and the wooden door series, the newly added fabric furniture line of Jixiangniao further enriches the Group’s product portfolio to eight different product lines.

Economies of Scale

Of the seven Huari solid wood furniture production lines in Langfang, the two export-oriented production lines recorded relatively low utilization rates in 2007. The Group therefore started re-engineering these two lines, completion of the re-engineering is expected in or before the third quarter this year, one of the two production lines will be reconstructed for domestic sales.



Jixiangniao's production lines are also located in Langfang. The Group relocated and re-engineered the production lines of Jixiangniao in the first quarter of 2008, the Group expects that through the re-engineering program in the first and second quarter of 2008. The overall business of Jixiangniao will achieve satisfactory growth in the second half of this year.

Nationwide Retail Business


In the first quarter of 2008, the number of self-owned and franchised retail shops of Huari remained at approximately 500, with aggregate floor area over 100,000 square meter (ie over 1 million square feet). The Group's business focus in the coming years is to achieve rapid growth in both the number of total retail points and the retail floor area.

With respect to self-owned shops, as the acquisition of the 20 Huari franchised shops are yet to be completed in the second quarter of 2008, the Group operated only one self-owned flagship store and showroom in Langfang in the first quarter 2008. The revenue and gross profit of Lang Fang Huari Furniture International Exhibition Center (Hall A) ("Langfang Huari flagship store") amounted to HK\$9.7 million and HK\$4.64 million in the first quarter 2008, respectively. Gross profit margin reached 48%. Although the Group did not own Langfang Huari flagship store during the corresponding period last year, comparison with first quarter of 2008 is still meaningful as sales from Langfang Huari flagship store only accounted for 9% of the total revenue.

As for the nationwide franchising business (indirect retail) of Jixiangniao, the Group's key objective in the first quarter of 2008 was to enhance Jixiangniao sales model, which included the introduction of Huari's well established franchising operation system, brand image design as well as management models.

As a whole, the revenue, gross profit and net profit in the first quarter of 2008 amounted to HK\$104.54 million, HK\$33.71 million and HK\$21.76 million, representing an increase of 78%, 69% and 46% respectively.

Retail business is the Group's focus. According to general domestic furniture market pattern in the PRC, two third of the annual revenue comes in during the second half of the year, while the first half accounts for only one third of the full year revenue. The revenue in the first quarter is the lowest of the year, which accounts for approximately 50%-70% of that of the second quarter. Notwithstanding this pattern in the first quarter of 2008, the Group's retail sales rose to HK\$97.53 million and accounted for 93% of the total turnover, exceeding the 83% of the first quarter of 2007 and the 88% of the full year 2007.



While leveraging its strengths and experience in the yearly-operated successful franchising business (indirect retail) are the main domestic retail strategy, the Group will also increase the number of self-owned flagship stores (direct retail) in expanding its retail business. The Group's direct retail business accounted for 9% of its total turnover and 14% of its total gross profit in the first quarter of 2008.

OUTLOOK

Marching towards seizing huge opportunities in the high quality furniture market, the Group has planned to employ the next few years as basic breeding years by enhancing the competitive edge of its design, manufacturing and retail network management. It is well positioned to be the market leader in the high quality furniture market.

Original Design

The Group plans to launch a young line of solid wood furniture series called “Master of eHome” in 2009. The Group will expand to the younger solid wood furniture market segment in the future with younger with younger marketing information supports from Jixiangniao.

Economies of Scale


For the expansion of the retail network and increasing total retail floor area in the future, the Group's solid wood production lines in Langfang are well prepared accordingly.

The Group plans to strengthen staff training, optimize and re-engineer workflow, implement computerization and production automation to improve overall efficiency and to consolidate its cost advantages among current few scalable and highly efficient solid wood furniture manufacturers in PRC.

Nationwide Retail Business

The Group's major mission in the next three years is to capture the rising opportunities in the mid-to-high-end furniture market, extend Huari furniture's retail network and develop new retail points for mid-end fabric furniture of Jixiangniao and wooden door.

The Group will continue supply of single furniture item like wooden door to furniture business with the prominent property developers in the PRC. Not only because such business can bring certain profit, but also because it helps to establish a good reputation, enhance the brand name and increase the brand awareness of the new property owners.



As far as the export business is concerned, the Group will maintain its contact and business relationship with overseas consumer market, as well as start a series of value-added programs, including the establishment of overseas franchising business, increasing the number of direct customers in Euro-Asia regions, employing overseas quality inspectors and salespersons, in order to strengthen customer confidence and enhance communication.

Liquidity and Financial Resources

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

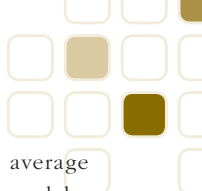
As at 31 March 2008, cash and bank balances of the Group were approximately HK\$25,761,000.

As at 31 March 2008, total borrowing of the Group amounted to approximately HK\$73,000 (as at 31 March 2007: HK\$22,000), representing obligation under a finance lease contract with an average interest rate of approximately 5% per annum and average lease term of approximately five years. Banking Facilities

Employees Information

As at 31 March 2008, the Group had employed 6 staffs in Hong Kong and 359 staffs in PRC (as at 31 March 2007: 5 staffs in Hong Kong and 601 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 three months ended 31 March 2008 amounted to approximately HK\$2,009,000 (2007: approximately HK\$2,278,000).

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, for the three months ended 31 March 2008, the Group hired an average monthly number of 1,877 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”) with Lang Fang Huari Furniture Joint Stock Co. Ltd. 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. For the three months ended 31 March 2008, the average monthly labour service payment made by Langfang Hengyu was approximately HK\$2,756,000. The workers hired through the labour service contracts did not enjoy the benefits available to the eligible employees of the Group. (2007: Nil)

GEARING RATIO

As at 31 March 2008, the Group’s gearing ratio was 8.8% representing a percentage of long term liabilities over total assets (As at 31 March 2007: 0.005%).

DIRECTORS’ RIGHTS TO ACQUIRE SHARES OR DEBENTURES

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

As at 31 March 2008, none of the Directors or chief executives of the Company held any share options.

CODE OF CONDUCT REGARDING SECURITIES TRANSACTIONS BY DIRECTORS

During the three months ended 31 March 2008, the Company had adopted a code of conduct regarding securities transactions by directors on terms no less exacting than the required standard of dealings as set out in Rules 5.48 to 5.67 of the GEM Listing Rules. The Company also had made specific enquiry of all Directors and the Company was not aware of any non-compliance with the required standard of dealings and its code of conduct regarding securities transactions by directors.

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

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

As at 31 March 2008, 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 5.48 to 5.67 of the GEM Listing Rules were as follows:

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

Name of director	Number of shares held, capacity and nature of interest				Total	Approximate percentage of the Company’s total issued share capital
	Directly beneficially owned	Through spouse or minor children	Through controlled corporation	Beneficiary of a trust		
Mr. Li Ge	36,908,000	-	-	-	36,908,000	3.06%

Save as disclosed above, as at 31 March 2008, 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 2008, 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\$0.002 each of the Company

Name	Nature and capacity of interest	Approximate Number of shares held	percentage of interest <i>(Note 1)</i>
True Allied Assets Limited	Beneficial owner	351,518,000	29.22%
Ms. HUANG Ye-hua <i>(Note 2)</i>	Interest of controlled corporation	351,518,000	29.22%
Mr. Zhou Xu En	Beneficial owner	109,382,430	9.09%
Citigroup Inc.	Person having a security interest in shares	73,500,000	6.11%
Deutsche Bank Aktiengesellschaft	Beneficial owner	72,168,000	6.00%
Sino Hope Investments Limited	Beneficial owner	69,953,330	5.82%
Mr. Zhao Jiangong <i>(Note 3)</i>	Interest of controlled corporation	69,953,330	5.82%
Fair China Focus Fund Limited	Beneficial owner	60,776,000	5.05%
Fair Investment Management Limited <i>(Note 4)</i>	Interest of controlled corporation	60,776,000	5.05%
Mr. Lau Tak Chuen, Airy <i>(Note 5)</i>	Interest of controlled corporation	60,776,000	5.05%



Note:

- (1) The percentage is calculated by dividing the number of shares interested or deemed to be interested by the then existing 1,202,799,970 issued shares as at 31 March 2008.
- (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 March 2008, the Board is not aware of any other persons, other than the Directors and chief executives of the Company, whose interests are set out in the section headed “Directors’ and chief executives’ interests and short positions in shares, underlying shares and debentures” above, had interests or short positions in the shares, underlying shares of the Company that was required to be recorded pursuant to Section 336 to the SFO.

LETTERS OF INTENT

On 7 January 2008, the Group has entered into letters of intent with Mr. Zhou Xu En, Mr. Xiu Xianliu, Mr. Cheng Pishuang, Mr. Pan Yongsheng, Mr. Wu Kemin and Mr. Pan Juncheng, Mr. Yang Yukai, Mr. Ren Kewei, Mr. Liu Qianji, Mr. Liu Lianghou and Mr. Liu Xiaodong respectively for the proposed acquisition of the furniture retail business of a total of 92 furniture retail shops owned and/or operated by the abovementioned persons 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 proposed consideration of each target business. For further details, please refer to the Company’s announcement dated 8 January 2008.



ACQUISITION OF JIXIANGNIAO FURNITURE FACTORY

On 19 October 2007, the Board announced that Langfang Hengyu an indirect wholly owned subsidiary of the Company, Langfang Development Zone Yunpeng Road Jixiangniao Furniture Factory (“Jixiangniao Furniture Factory”) and Mr. Liu Qian Jin entered into the acquisition agreement, pursuant to which Langfang Hengyu conditionally agreed to acquire and Jixiangniao Furniture Factory conditionally agreed to sell including (i) the trademark; (ii) the business of manufacturing and wholesaling of sofa, tea tables and living room furniture and the relevant operating assets of Jixiangniao Furniture Factory (including but not limited to all the contracts, agreements or undertakings in relation to the aforesaid business and assets signed with any independent third parties and all the rights and benefits derived therefrom) but excluding any debts and liabilities; and (iii) the inventory level as at 31 December 2007, 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 4 to 6 times. In any event, the maximum amount of consideration payable shall not exceed RMB73.5 million.

The acquisition constitutes a discloseable and connected transaction under the GEM Listing Rules. For further details, please refer to the Company’s announcement dated 22 October 2007 and circular dated 12 November 2007. The related acquisition was approved by the independent shareholders of the Company at the special general meeting held on 30 November 2007, and was completed on 1 January 2008.

ACQUISITION OF CERTAIN FURNITURE RETAIL BUSINESS

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 furniture retail business for the year ending 31 March 2009 multiplied by 3 to 4 times. However, the consideration will not exceed RMB48,000,000 in any event.

The acquisition constitutes a discloseable transaction under the GEM Listing Rules. For further details, please refer to the Company’s announcement dated 19 February 2008 and circular and 7 March 2008 respectively.

SUBSEQUENT EVENT

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 took legal action against the abovementioned independent third party and two executive directors who resigned in 2001 (the “Ex-executive Directors”) in respect of the breach of the Deed of Guarantee and their fiduciary duties, and the Company also took legal action against the Ex-executive Directors in respect of the breach of their fiduciary duties. The Company reached an out of court settlement with the Ex-executive Directors (the “Settlement”) on 20 July 2007. During the taxation process, the Company reached agreement with the Ex-executive Directors on the amount of legal costs to be paid pursuant to the Settlement on 10 April 2008 and the same was approved by the Court amounting to approximately HK\$498,000. As the Company has made a provision of HK\$670,000 in the Year 2007, the difference between the provision and the legal costs will be treated as “other income” in the second quarter of this year.

CHARGE ON GROUP’S ASSETS

Save as the finance lease contract for the Group’s office equipment, the Group did not have any other charge on its assets as at 31 March 2008 (2007: Nil).


FOREIGN CURRENCY RISK

As most of the Group’s monetary assets and liabilities were denominated in Renminbi and Hong Kong dollars, the exchange rate risks of the Group were considered to be minimal. As at 31 March 2008, no related hedges were made by the Group.

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

AUDIT COMMITTEE

The Company has established an audit committee in July 2000 with its written terms of reference pursuant to Rules 5.28 to 5.33 of the GEM Listing Rules. Approved by the then directors attending the Board meeting held on 7 December 2006, the terms of reference set out in “A Guide for Effective Audit Committees”, published by HKICPA in February 2002, were adopted as written terms of reference for the audit committee of the Company. As at 31 March 2008, 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 announcement and report for the three months ended 31 March 2008 and provided advice and recommendations to the Board. After the review of the financial statements, the members of the audit committee were of the opinion that such statements comply with the applicable accounting standards, the GEM Listing Rules and other applicable laws and regulations and that adequate disclosure had been made.


CORPORATE GOVERNANCE PRACTICES

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

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

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

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



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

Save as disclosed above, for the three months ended 31 March 2008, the Company complied with the code provisions of the CG Code.

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

For the three months ended 31 March 2008, there was no purchase, sale or redemption by the Company, or any of its subsidiaries, of the Company's listed securities.

COMPETING INTEREST

None of the Directors or the management shareholders of the Company (as defined in the GEM Listing Rules) or their respective associates had any interest in any business which competed or might compete with the business of the Group for the three months ended 31 March 2008.

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

Hong Kong, 13 May 2008

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