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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



THIRD QUARTERLY REPORT 2010

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

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Given the emerging nature of companies listed on GEM, there is a risk that securities traded on GEM may be more susceptible to high market volatility than securities traded on the Main Board and no assurance is given that there will be a liquid market in the securities traded on GEM.

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This report, for which the directors of the Company (the “Directors”) collectively and individually accept full responsibility, includes particulars given in compliance with the GEM Listing Rules for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in this report is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this report misleading.

THIRD QUARTERLY RESULTS (UNAUDITED)

The board of directors (the “Board”) of FAVA International Holdings Limited (the “Company”) is pleased to announce the unaudited consolidated results of the Company and its subsidiaries (the “Group”) for the three months and nine months ended 30 September 2010 together with the comparative figures.

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (UNAUDITED)

For the three months and nine months ended 30 September 2010

| | Notes | Three months ended 30 September | | Nine months ended 30 September | |
|---------------------------------------------------------------------------------------------|-------|------------------------------------|------------------|-----------------------------------|------------------|
| | | 2010 HK\$'000 | 2009 HK\$'000 | 2010 HK\$'000 | 2009 HK\$'000 |
| Turnover | 2 | 51,005 | 55,702 | 130,532 | 175,607 |
| Cost of sales | | (41,924) | (42,871) | (106,071) | (137,992) |
| Gross profit | | 9,081 | 12,831 | 24,461 | 37,615 |
| Other revenue | | 146 | 464 | 1,111 | 4,317 |
| Other income | | 2,125 | – | 5,189 | – |
| Impairment loss in respect of goodwill | | – | (16,159) | – | (45,758) |
| Written down of inventories | | (26,103) | (11,692) | (26,103) | (26,615) |
| Selling and distribution costs | | (4,849) | (9,996) | (11,680) | (42,747) |
| Administrative expenses | | (8,161) | (11,478) | (23,579) | (29,595) |
| Other operating expenses | | (509) | (269) | (1,662) | (506) |
| Loss from operations | | (28,270) | (36,299) | (32,263) | (103,289) |
| Finance costs | | (1) | (88) | (3) | (172) |
| Loss before taxation | | (28,271) | (36,387) | (32,266) | (103,461) |
| Taxation | 3 | – | – | – | – |
| Net loss for the period | | (28,271) | (36,387) | (32,266) | (103,461) |
| Interim dividend | 4 | – | – | – | – |
| Other comprehensive income/(expense): | | | | | |
| Exchange differences arising from translation of financial statements of subsidiaries | | 1,258 | 394 | 5,597 | (81) |
| Total comprehensive expense for the period | | (27,013) | (35,993) | (26,669) | (103,542) |
| | | HK cents | HK cents | HK cents | HK cents |
| Loss per share | | | | | |
| – basic | 5 | (2.0) | (2.8) | (2.3) | (8.0) |
| – diluted | 5 | (2.0) | (2.8) | (2.3) | (8.0) |

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (UNAUDITED)

| | Share capital HK\$'000 | Share premium HK\$'000 | Contributed surplus HK\$'000 | Retained earnings/ (Accumulated losses) HK\$'000 | Exchange reserve HK\$'000 | Statutory reserves HK\$'000 | Total equity HK\$'000 |
|-------------------------------------------------------------------------------|------------------------------|------------------------------|------------------------------------|--------------------------------------------------------------|---------------------------------|-----------------------------------|-----------------------------|
| At 31 December 2008 and 1 January 2009 | 2,405 | 151,778 | 36,000 | 119,539 | 36,448 | 41,481 | 387,651 |
| Loss for the period | - | - | - | (103,461) | - | - | (103,461) |
| Other comprehensive expense for the period | - | - | - | - | (81) | - | (81) |
| Total comprehensive expense for the period | - | - | - | (103,461) | (81) | - | (103,542) |
| Issue of shares | 364 | - | - | - | - | - | 364 |
| Premium arising from issue of new shares, net of expenses | - | 17,499 | - | - | - | - | 17,499 |
| At 30 September 2009 | 2,769 | 169,277 | 36,000 | 16,078 | 36,367 | 41,481 | 301,972 |
| At 31 December 2009 and 1 January 2010 | 2,769 | 169,277 | 36,000 | (945) | 36,560 | 41,481 | 285,142 |
| Loss for the period | - | - | - | (32,266) | - | - | (32,266) |
| Other comprehensive income for the period | - | - | - | - | 5,597 | - | 5,597 |
| Total comprehensive (expense)/ income for the period | - | - | - | (32,266) | 5,597 | - | (26,669) |
| Issue of new share upon exercise of share options | 111 | - | - | - | - | - | 111 |
| Premium arising from issue of new shares upon exercise of share options | - | 7,474 | - | - | - | - | 7,474 |
| At 30 September 2010 | 2,880 | 176,751 | 36,000 | (33,211) | 42,157 | 41,481 | 266,058 |

Notes:

1. BASIS OF PREPARATION

The Group's unaudited third quarterly results have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by Hong Kong Institute of Certified Public Accountants ("HKICPA"), accounting principles generally accepted in Hong Kong and the applicable disclosures 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 nine months ended 30 September 2010 are consistent with those adopted in the annual report of the Company for the year ended 31 December 2009.

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 30 September | | Nine months ended 30 September | |
|------------------------------------------------|----------------------------------------|----------------------------------------|----------------------------------------|----------------------------------------|
| | 2010 HK\$'000 <u>(Unaudited)</u> | 2009 HK\$'000 <u>(Unaudited)</u> | 2010 HK\$'000 <u>(Unaudited)</u> | 2009 HK\$'000 <u>(Unaudited)</u> |
| Manufacture and sales of household products | <u>51,005</u> | <u>55,702</u> | <u>130,532</u> | <u>175,607</u> |

3. TAXATION

No provision for Hong Kong profits tax has been made as the Group has no assessable profit in Hong Kong for the nine months ended 30 September 2010 (nine months ended 30 September 2009: 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. The PRC subsidiaries of the Group, Langfang Huari Hengyu Home Co. Limited* (廊坊華日恒宇家居有限公司) is categorised as a foreign investment enterprise and is entitled to preferential tax treatments (“Preferential Tax treatments”) including full exemption from EIT for 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.

No EIT was charged for the nine months ended 30 September 2010 as all the PRC subsidiaries of the Group have recorded loss (nine months ended 30 September 2009: Nil).

There was no significant unprovided deferred taxation for the nine months ended 30 September 2010 (nine months ended 30 September 2009: Nil).

Deferred tax had not been provided as there were no significant temporary differences at the period-end date (nine months ended 30 September 2009: Nil).

4. INTERIM DIVIDEND

No interim dividend has been paid or declared by the Company for the nine months ended 30 September 2010 (nine months ended 30 September 2009: Nil).

5. LOSS PER SHARE

The calculation of basic loss per share is based on the loss attributable to owners of the Company of approximately HK\$32,266,000 (2009: approximately HK\$103,461,000) and the weighted average 1,401,321,294 (2009: 1,287,466,637) ordinary shares in issue during the period.

Diluted loss per share for the nine months ended 30 September 2010 had not been shown as the exercised or outstanding share options of the Company during the period had an anti-diluted effect on the basic loss per share for the period.

There was no diluting event existing during the nine months ended 30 September 2010 and 2009.

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review

The fallout of the subprime mortgage and financial crisis arising from the US has been fading away. Thanks to the economic revitalisation solution introduced by China government, Mainland China's GDP recorded an appreciable growth and domestic consumption was boosted. Although the current Chinese economy has begun to recover, the consumption desire in the household market will remain sluggish for some time. Consumers have become more rational and more demanding for product quality and style. This has relatively reduced our market share. The macro control policies of China government to suppress the overheating real estate markets in certain major domestic cities had an impact on the Group since its customers are mainly based on first- and second-tier cities.

Despite the rising costs of labour, raw material and transportation in China, the Group has yet managed to reduce the selling prices in order to preserve its market share. For this reason, the Group is actively seeking to maintain its market competitiveness and improve its profitability through sales expansion, stringent cost control and improvements in inventory management.

The Group will continue to operate its business in the wholesale and retail of solid wood furniture in China. To address the rising production cost on capacity surplus as a result of the previous overexpansion, the Group had, before the third quarter of the year, disposed of all self-operated retail business except for Lang Fang Huari International Exhibition Center ("Hall A"), the Jixiangniao branded manufacturing and wholesale business which is mainly for low-end customers and Lang Fang Tian Feng Home Co. Limited, one of its subsidiaries which has halted operation. The Group focused its financial and management resources on the manufacturing and sales of household products targeting mid- to high-end customers. Meanwhile, the Group realigned its marketing strategy from increasing the number of self-operated retail shops to improving the profitability of the existing franchised retail shops and self-operated retail shops.

The Group will continue to improve its purchase strategy and seek out alternative suppliers for the purpose of maintaining and enhancing cost control. The Group will continue to invest in its brand and business, including product development, employee training and product promotion. The Group will continue to launch a number of marketing and promotional activities to improve the Group's brand image and brand awareness to customers.

Financial Review

As at the third quarter of 2010, total sales amounted to approximately HK\$130,532,000, a decline of 25.67% from approximately HK\$175,607,000 for the same period last year. The decrease in sales was primarily attributable to the weak demand in the furniture market coupled with intensified market competition, the disposal of the inefficient self-operated retail business and the disposal of Jixiangniao branded manufacturing and wholesale business and promotional discounting.

During the period, indirect and direct retail sales accounted for 90.72% and 9.28% of the total sales of the Group respectively. The revenue from indirect retail sales of Huari Furniture, the core business of the Group, amounted to approximately HK\$118,412,000, an increase of 3.86% as compared with that of approximately HK\$114,010,000 for the corresponding period last year. The revenue from direct retail sales from Huari Furniture's self-operated retail business was approximately HK\$12,120,000, a decrease of 63.64% as compared with that of approximately HK\$33,330,000 for the corresponding period of 2009.

The gross profit margin for the period dropped to 18.74% from 21.42% for the corresponding period last year, which was primarily attributable to the disposal of all the self-operated retail business except for Hall A while the gross profit margin of the self-operated retail business is relatively high.

The operating loss for the period dropped to approximately HK\$32,266,000 from approximately HK\$103,461,000 for the corresponding period last year, which was primarily attributable to the disposal of all the underperforming assets including the self-operated retail business except for Hall A and the Jixiangniao branded manufacturing and wholesale business which is mainly for low-end customers and thus the loss has been significantly lowered.

Prospect

The Group remains cautiously optimistic about the outlook for the coming year. Overall, government control and stimulus measures worldwide have improved prospects for global economic stability. The positive outlook for the Chinese economy, supported by elevated asset prices, should help support consumers' confidence.

Nevertheless, the global economy is subject to a number of risks, which may arise from the European debt position or a worse-than-expected correction in the Chinese property market. Recently, global stock markets have also shown a tendency towards strong volatility and the European Union governments have enacted a series of tough regulatory and fiscal austerity measures, which in turn may lead to a renewed cycle of poor consumer sentiment. On balance, however, the Group remains optimistic that the Asian economic recovery will continue.

To equip itself for growth in business in the coming years, the Group will enhance its organisational structure, develop more talents as well as discover and promote excellent management in accordance with human resources policies. The Group will continue to strengthen its key functions such as product development, category management, marketing and training to complement our growth. And the Group will deploy more resources to speed up the network expansion.

The Group believes that the success of an enterprise rests upon the concerted efforts of the management and all the employees, therefore it is committed to recruit and provide training to high-quality new employees as well as to retain skilled and experienced employees for delivering better services to customers. The Group also mobilizes the enthusiasm of employees through remunerations package and fringe benefits such as the share option scheme and the commitment to staff training.

The Group also seeks to identify suitable acquisition targets and expects that these acquisitions are going to generate new growth points for the Group for sustaining its future development.

Business Disposal

Disposal of the Jixiangniao Furniture Factory* (吉祥鳥家具廠) owned by Langfang Huari Hengyu Home Co., Ltd* (廊坊華日恒宇家居有限公司) (“Hengyu”) (the “Disposal”)

On 19 May 2010, Hengyu entered into a disposal agreement with Mr. Liu Qian Jin (柳前進先生) (“Mr. Liu”), pursuant to which Hengyu agreed to dispose of and Mr. Liu agreed to acquire, the Jixiangniao Furniture Factory* (吉祥鳥家具廠), a factory engages in the business of manufacturing and wholesaling of sofa, tea tables and living room furniture, and the business of Jixiangniao Furniture Factory* (吉祥鳥家具廠) wholly owned by Hengyu. Mr. Liu was an independent third party in respect of the Disposal. The consideration for the Disposal is RMB3,400,366.97 (approximately HK\$3,867,781.41). The gross proceeds of RMB3,400,366.97 (before deducting all expenses) from the Disposal has been applied for offsetting the amounts due to Mr. Liu and the remaining balance has been used as the Group’s general working capital. For details, please refer to the announcement of the Company dated 19 May 2010.

Disposal of the Beijing Business by Hengyu

On 14 June 2010, Hengyu entered into a disposal agreement (the “Beijing Disposal Agreement”) with Mr. Zhou Xu En (“Mr. Zhou”), pursuant to the Beijing Disposal Agreement, Hengyu agreed to dispose of and Mr. Zhou agreed to acquire, the furniture retail outlet in Beijing and its business owned by Hengyu as at 31 May 2010 (the “Beijing Business”) (the “Beijing Disposal”). Mr. Zhou was an independent third party save as the business relationship with Lang Fang Huari Furniture Joint Stock Co., Ltd.* (廊坊華日家具股份有限公司) in respect of the Beijing Business. The consideration for the Beijing Disposal is RMB49,683.53 (approximately HK\$56,515.02). The gross proceeds of RMB49,683.53 from the Beijing Disposal has been used as the Group’s general working capital. For details, please refer to the announcement of the Company dated 14 June 2010.

Disposal of the Shanghai Business by Hengyu

On 14 June 2010, Hengyu entered into a disposal agreement (the “Shanghai Disposal Agreement”) with Mr. Zhang Ming Liang (“Mr. Zhang”), pursuant to the Shanghai Disposal Agreement, Hengyu agreed to dispose of and Mr. Zhang agreed to acquire, the furniture retail outlet in Shanghai and its business owned by Hengyu as at 31 May 2010 (the “Shanghai Business”) (the “Shanghai Disposal”). Mr. Zhang was an independent third party in respect of the disposal of the Shanghai Business. The consideration for the Shanghai Disposal is RMB209,319.33 (approximately HK\$238,100.74). The gross proceeds of RMB209,319.33 from the Shanghai Disposal has been used as the Group’s general working capital. For details, please refer to the announcement of the Company dated 14 June 2010.

Disposal of the Dalian Business by Hengyu

On 14 June 2010, Hengyu entered into a disposal agreement (the “Dalian Disposal Agreement”) with Mr. Huang Bing Xiu (“Mr. Huang”), pursuant to the Dalian Disposal Agreement, Hengyu agreed to dispose of and Mr. Huang agreed to acquire, the furniture retail outlet in Dalian and its business owned by Hengyu as at 31 May 2010 (the “Dalian Business”) (the “Dalian Disposal”). Mr. Huang was an independent third party in respect of the disposal of the Dalian Business. The consideration for the Dalian Disposal is RMB1 (approximately HK\$1.1375). The gross proceeds of RMB1 from the Dalian Disposal has been used as the Group’s general working capital. For details, please refer to the announcement of the Company dated 14 June 2010.

Transfer of Tianfeng Equity Interests (the “Share Transfer”) by Trader Group International Limited (“Trader Group”)

On 17 September 2010, Trader Group, a wholly-owned subsidiary of the Company, entered into a share transfer contract (the “Share Transfer Contract”) with Lucky Sky Enterprise Limited (“Lucky Sky”), an independent third party in respect of the Share Transfer, pursuant to the Share Transfer Contract, Trader Group agreed to dispose of and Lucky Sky agreed to acquire, the 100% equity interests of Lang Fang Tian Feng Home Co., Ltd* (廊坊天豐家居有限公司). The consideration for the Share Transfer is RMB5,557,355.18 (approximately HK\$6,346,999.78). The gross proceeds of RMB5,557,355.18 from the Share Transfer has been used as the Group’s general working capital. For details, please refer to the announcement of the Company dated 17 September 2010.

Save as disclosed above, the Group did not have any other acquisition or disposal during the period.

Liquidity and Financial Resources

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

As at 30 September 2010, cash and bank balances of the Group was approximately HK\$18,389,000.

As at 30 September 2010, total borrowing of the Group amounted to approximately HK\$32,000 (as at 30 September 2009: approximately HK\$48,000), representing the obligation under a finance lease contract with an average interest rate of approximately 5% per annum and average lease term of approximately five years.

DIRECTORS’ RIGHTS TO ACQUIRE SHARES OR DEBENTURES

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

As at 30 September 2010, none of the Directors or chief executives of the Company held any share options.

CODE OF CONDUCT REGARDING SECURITIES TRANSACTIONS BY DIRECTORS

During the nine months ended 30 September 2010, the Company had adopted a code of conduct regarding securities transactions by directors on terms no less exacting than the required standard of dealings as set out in Rules 5.48 to 5.67 of the GEM Listing Rules. The Company also had made specific enquiry of all Directors and the Company was not aware of any non-compliance with the required standard of dealings and its code of conduct regarding securities transactions by directors.

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

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

As at 30 September 2010, 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 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 | | | | | Approximate percentage of the Company’s total issued are capital (Note 1) |
|------------------|--------------------------------------------------------|----------------------------------|--------------------------------|------------------------|-------------|------------------------------------------------------------------------------|
| | Directly beneficially owned | Through spouse or minor children | Through controlled corporation | Beneficiary of a trust | Total | |
| Mr. Li Ge | 37,012,000 | – | 351,518,000 | – | 388,530,000 | 26.98% |

Note:

- (1) The percentage is calculated by dividing the number of shares interested or deemed to be interested by the existing 1,439,999,970 issued shares as at 30 September 2010.

Save as disclosed above, as at 30 September 2010, 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 30 September 2010, 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 | Number of shares held | Approximate percentage of interest <i>(Note 1)</i> |
|-----------------------------------------|------------------------------------|-----------------------|-------------------------------------------------------|
| Substantial Shareholders | | | |
| True Allied Assets Limited | Beneficial owner | 351,518,000 | 24.41% |
| Mr. Li Ge <i>(Note 2)</i> | Interest of controlled corporation | 351,518,000 | 24.41% |
| | Beneficial owner | 37,012,000 | 2.57% |
| Other Shareholders | | | |
| Red Rabbit Capital Limited | Beneficial owner | 77,660,000 | 5.39% |
| Mr. Kong Lung Cheung <i>(Note 3)</i> | Interest of controlled corporation | 77,660,000 | 5.39% |

Note:

- (1) The percentage is calculated by dividing the number of shares interested or deemed to be interested by the existing 1,439,999,970 issued shares as at 30 September 2010.
- (2) Mr. Li Ge is interested by virtue of his 100% beneficial interest in True Allied Assets Limited.
- (3) Mr. Kong Lung Cheung is interested by virtue of his 100% beneficial interest in Red Rabbit Capital Limited.

Save as disclosed above, as at 30 September 2010, 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 or underlying shares of the Company that was required to be recorded pursuant to Section 336 to the SFO.

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 30 September 2010 (2009: 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 30 September 2010, no related hedges were made by the Group.

CONTINGENT LIABILITIES

The Group had no contingent liabilities at the balance sheet date.

AUDIT COMMITTEE

The Company has established an audit committee in July 2000 with its written terms of reference pursuant to Rules 5.28 to 5.33 of the GEM Listing Rules. Approved by the then directors attending the Board meeting held on 7 December 2006, the terms of reference set out in “A Guide for Effective Audit Committees”, published by HKICPA in February 2002, were adopted as written terms of reference for the audit committee of the Company. As at 30 September 2010, the audit committee comprised three members, namely Mr. LEE Yuen Kwong, Mr. YANG Dongli and Mr. YANG Jie, being independent non-executive Directors of the Company.

The primary duties of the audit committee are to review and supervise the financial reporting process and internal control systems of the Group and to provide advice and comments to the Board. The audit committee has reviewed the Group's third quarterly results announcement and report for the nine months ended 30 September 2010 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 and one non-executive Director form the majority of the seven member Board;
- the Audit Committee is composed exclusively of independent non-executive Directors; and
- the independent non-executive Directors and non-executive Director could have free and direct access to the Company's external auditors and independent professional advice whenever necessary.

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

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

Save as disclosed above, for the nine months ended 30 September 2010, the Company complied with the code provisions of the CG Code.

MEMORANDUM OF UNDERSTANDING

On 20 September 2010, a wholly-owned subsidiary of the Company, EMAX Venture Limited (the “Purchaser”), entered into the Memorandum of Understanding (“MOU”) with an individual who is the controlling shareholder of the target company under the proposed acquisition (the “Target Company”) (the “Vendor”), pursuant to which the Purchaser intended to acquire and the Vendor intended to sell 80% interest of the Target Company (the “Proposed Acquisition”). The Target Company and its subsidiaries are principally engaged in the retail business of fashionable products and accessories in Hong Kong and the PRC.

The MOU is non-legally binding save for certain provisions relating to the settlement method of the consideration payable by the Purchaser to the Vendor for the Proposed Acquisition, confidentiality, exclusivity and governing law of the MOU. In the event that the parties proceeds with the Proposed Acquisition, a formal legally-binding sale and purchase agreement (the “Formal Agreement”) will be entered into between the Purchaser (or its nominated entity) and the Vendor. After signing of the MOU, the parties thereto shall entered into good faith negotiation for the Formal Agreement and other documentation and matters relating to the Proposed Acquisition and the provisions of the MOU shall form the basis for the preparation of the said documents.

As at the date of this report, the terms of the proposed acquisitions in respect of the matters contemplated by the MOU are still under negotiation and no formal agreement has been concluded yet. The proposed acquisition in respect of the, if materialize, may constitute a notifiable transaction for the Company under the GEM Listing Rules.

Details of the MOU please refer to the announcement of the Company dated 21 September 2010.

PLACING AND SUBSCRIPTION OF NEW SHARES

The Company entered into a placing agreement dated 21 September 2010 with Quam Securities Company Limited (the “Placing Agent”), whereby the Company conditionally agreed to place through the Placing Agent, on a best efforts basis, a maximum of 276,956,000 new shares (the “Placing Shares”) to independent investors at a price of HK\$0.116 per Placing Share (the “Placing”).

The placing of 276,956,000 new shares to not less than six places was completed on 8 October 2010 at a placing price of HK\$0.116 per share. HK\$30,000,000 of the net proceeds received by the Company from the Placing of approximately HK\$31,800,000 has been applied for the partial settlement of the earnest money in the amount of HK\$40,000,000 payable under the terms of the MOU. As at the date of this report, the earnest money has been fully settled.

For further details, please refer to the Company's announcements dated 21 September 2010 and 8 October 2010 respectively.

SHARE OPTION

On 22 January 2010 and 28 September 2010, the Company has granted 110,400,000 and 27,600,000 share options respectively, pursuant to the Company's Share Option Scheme adopted on 24 May 2002. The share options entitle the offerees to subscribe for a total of 138,000,000 ordinary shares of HK\$0.002 each in the capital of the Company upon exercise in full. The exercise price of the share options granted is HK\$0.1374 and HK\$0.157 respectively, and the validity and exercise period is two years which commenced from the date of grant to 21 January 2012 and one year which commenced from the date of grant to 27 September 2011.

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

For the nine months ended 30 September 2010, save and except the Placing referred to above, there was no purchase, sale or redemption by the Company, or any of its subsidiaries, of the Company's listed securities.

COMPETING INTEREST

None of the Directors or the management shareholders of the Company (as defined in the GEM Listing Rules) or their respective associates had any interest in any business which competed or might compete with the business of the Group for the nine months ended 30 September 2010.

By Order of the Board
FAVA International Holdings Limited
Zhao Guo Wei
Executive Director

Hong Kong, 9 November 2010

As at the date of this report, the Board comprises of Mr. LI Ge, Mr. ZHAO Guo Wei and Mr. MA Chun Fung, Horace as executive Directors, Mr. NG Kwai Wah, Sunny as non-executive Director, and Mr. LEE Yuen Kwong, Mr. YANG Dongli and Mr. YANG Jie as independent non-executive Directors.
