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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 : 08108

ANNUAL REPORT 2012

* For identification purpose only

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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 Rules Governing the Listing of Securities on the GEM of the Stock Exchange (the "GEM Listing Rules") for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief 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.

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CORPORATE INFORMATION

EXECUTIVE DIRECTORS

Mr. Li Ge
Mr. Zhao Guo Wei
Mr. Sun, Miguel (appointed on 24 February 2012)

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Liu Qing Chen
Mr. Zhang Chun Qiang (appointed on 24 February 2012)
Ms. Tan Xiao Yan (appointed on 4 January 2013)
Mr. Yang Jie (resigned on 24 February 2012)
Mr. Yang Dongli (resigned on 4 January 2013)

REGISTERED OFFICE

Clarendon House,
2 Church Street,
Hamilton HM 11,
Bermuda

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS

Room 1005, 10/F., C.C. Wu Building,
302-8 Hennessy Road,
Wanchai,
Hong Kong

AUDIT COMMITTEE

Mr. Liu Qing Chen *(Chairman)*
Mr. Zhang Chun Qiang (appointed on 24 February 2012)
Ms. Tan Xiao Yan (appointed on 4 January 2013)
Mr. Yang Jie (resigned on 24 February 2012)
Mr. Yang Dongli (resigned on 4 January 2013)

REMUNERATION COMMITTEE

Mr. Liu Qing Chen *(Chairman)*
Mr. Zhang Chun Qiang (appointed on 24 February 2012)
Ms. Tan Xiao Yan (appointed on 4 January 2013)
Mr. Yang Jie (resigned on 24 February 2012)
Mr. Yang Dongli (resigned on 4 January 2013)

NOMINATION COMMITTEE

(established on 1 March 2012)

Mr. Liu Qing Chen *(Chairman)*
Mr. Zhang Chun Qiang
Ms. Tan Xiao Yan (appointed on 4 January 2013)
Mr. Yang Dongli (resigned on 4 January 2013)

COMPLIANCE OFFICER

Mr. Li Ge

AUTHORISED REPRESENTATIVES

Mr. Li Ge
Mr. Chan Yuk Hiu, Taylor

COMPANY SECRETARY

Mr. Chan Yuk Hiu, Taylor, *CPA, FCCA*

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

HSBC Securities Services (Bermuda) Limited
6 Front Street,
Hamilton HM 11,
Bermuda

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Tricor Tengis Limited
26/F., Tesbury Centre,
28 Queen's Road East,
Wanchai, Hong Kong

HONG KONG LEGAL ADVISER

Stevenson, Wong & Co. Solicitors
4/F. & 5/F., Central Tower,
28 Queen's Road Central,
Hong Kong

AUDITORS

HLB Hodgson Impey Cheng Limited
Chartered Accountants
Certified Public Accountants
31/F, Gloucester Tower,
The Landmark,
11 Pedder Street,
Central,
Hong Kong

GEM STOCK CODE

08108

PRINCIPAL BANKER

The Hongkong and Shanghai Banking Corporation Limited
Bank of China (Hong Kong) Limited

CHAIRMAN'S STATEMENT

DEAR SHAREHOLDERS,

On behalf of the board (the "Board") of the directors (the "Directors") of FAVA International Holdings Limited (the "Company"), I am pleased to report the annual results of the Company together with its subsidiaries (collectively referred to as the "Group") for the fiscal year ended 31 December 2012.

BUSINESS AND FINANCIAL REVIEW

This year, the Group was mainly engaged in providing funeral services, selling funeral-related products, and manufacturing and selling household products.

As at 31 December 2012, the Group's total revenue from the provision of funeral services and sale of funeral-related products amounted to approximately HK$39,165,000, including the total revenue of HK$38,675,000 made by the Grand Peace Funeral Parlour in Hung Hom as at 31 December 2012 which started formal operation on 27 April 2012. As most of the funds had been put in the operation of Grand Peace Funeral Parlour, the preliminary investment in Huidong County Huaqiao Cemetery in PRC that the Group had intended to start at the beginning of 2012 (including landscaping, the construction of pavements and canels in the cemetery, etc.) was extended to the first half of 2013.

The household products business had continuously recorded losses since 2009, due to the internal cause of the Group's deficiency in operation and management, and to the external cause of the overall situation in the international and domestic household products market, such as the global financial crisis including the European debt crisis, the regulation of the real estate market by the Chinese government, the intense competition in the household products market, a significant amount of cash flew out despite of multiple times of capital injection. The Group's turnover from the household products business for the year was approximately HK$194,232,000 (2011: approximately HK$190,970,000), representing an annual increase of 1.71%. The net losses were approximately HK$67,955,000. The huge operating losses had adverse effects on the Group's overall performance. Therefore, the Group sold subgroup engaged in the household products business by two stages. Specifically, the selling of 25% of the subgroup's equity interests has been completed on 24 May 2012, and an Extraordinary General Meeting ("EGM") is yet to be held specially for the disposal of the remaining 75%.

PROSPECTS

Looking into the future, the Group will continue to be committed to the development of the funeral business, taking prudent steps to strengthen its management and operation capability, and actively seek other businesses that are conducive to bringing more robust profits to repay the shareholders for their support. I would like to thank all shareholders and the Board for their unswerving support and confidence.

I also express my sincere gratitude to our customers and business partners. I would also like to thank on behalf of the Group in recognition of the dedications by all our employees to make a valuable contribution for the Group.

Li Ge
Chairman and Chief Executive Officer

Hong Kong, 20 March 2013

The board (the "Board") of the directors (the "Directors") of FAVA International Holdings Limited (the "Company") is pleased to report the audited annual results of the Company together with its subsidiaries (collectively referred to as the "Group") for the fiscal year ended 31 December 2012.

BUSINESS AND FINANCIAL REVIEW

The Group's reportable businesses for the year ended 31 December 2012 are the funeral business and the household products business.

The Group's total operating revenue for the year amounted to approximately HK$233,397,000, representing an increase of 17.52% as compared to last year, and the total losses were about HK$96,233,000.

FUNERAL BUSINESS

The Group's total revenue from the provision of funeral services and sale of funeral-related products amounted to approximately HK$39,165,000, including the total revenue of about HK$38,675,000 made by Grand Peace Funeral Parlour in Hung Hom as at 31 December 2012 which officially started operation on 27 April 2012. Just entering the funeral service industry, the Group had not yet fully spread its sales network so that the funeral parlour's facilities had not reached full-load operation, and as the costs such as the government's high rents and employee wages remained unchanged, the Group's funeral business recorded a net loss of HK$28,278,000.

On 15 December 2011, the Group entered into an agreement to acquire 100% equity interest of Profit Value Group Limited with a cash consideration of HK$80,000,000. The acquisition will enable the Group to be granted a 30-year sub-contracting agreement concerning the provision of all funeral-related services, products and assistance required by the operation of Huidong County Huaqiao Cemetery entered into between Ming De Tang Trading (Shenzhen) Limited Company (a subsidiary 100% indirectly owned by Profit Value Group Limited in China) and Huidong County Huaqiao Cemetery Management Company. The transaction has been formally approved by shareholders at the special general meeting of the Company held on 12 March 2012, and was completed on 10 April 2012.

Moreover, at the beginning of 2012, South China Memorial Park & Funeral Service Limited, the Group's subsidiary (the Group owns 60% of its equity interests), was authorized by the Government of the Hong Kong Special Administrative Region (HKSAR) to hold a valid funeral parlour license, providing funeral services and operation, managing and maintaining the public funeral parlour located at Cheong Hang Road, Hung Hom, which was officially renamed Grand Peace Funeral Parlour, the authorization took effect on 1 April 2012 for a term of 60 months. Grand Peace Funeral Parlour officially started operation on 27 April 2012.

As most of the funds had been put in the operation of Grand Peace Funeral Parlour, the preliminary investment in Huidong County Huaqiao Cemetery that the Group had intended to start at the beginning of 2012 (including landscaping, the construction of pavements and canals in the cemetery, etc.) was extended to the first half of 2013.

HOUSEHOLD PRODUCTS BUSINESS

In the period under review, as the continuation of the European debt crisis imposed great pressure on the global household products market, the domestic labour costs continued to rise, the land and raw material costs kept going up, the PRC Central Government's micro-control policies in real estate forced potential buyers to postpone their housing purchase plan and the decision to buy furniture, the Group's household products business and its profitability were seriously affected. To cope with the pressure of rising costs, the Group terminated its direct sales business in the third quarter of 2011 and adjusted the selling prices of some household products and carried out the disposal of the remaining non-performing assets (NPAs) in the second half of 2011, but still yielding unsatisfactory results.

For the year ended 31 December 2012, the total sales revenue from the household products business amounted to approximately HK$194,232,000, representing an increase of 1.71% as compared to the same period last year. However, a gross loss of about HK$13,030,000 was recorded for the first time this year. This is mainly because the production costs went up, but after considering the consumers' affordability and to maintain market share, the Group had not completely passed on the rising costs to consumers, and also because the Group sold long-term slow-moving finished goods inventory of approximately RMB50.45 million (approximately HK$61.93 million) at a 35% discount on average to the cost.

With gross losses recorded, it also suffered losses in disposing slow-moving finished goods inventory and in selling WIP that can only be used for the production of the slow-moving finished goods of approximately RMB14.5 million (approximately HK$17.8 million) at a 30% discount to the cost. The net losses from the household products business rose drastically to about HK$67,955,000 from about HK$51,457,000 last year.

On 8 March 2012, the Group entered into an agreement with Huari, to transfer a Plant in Langfang owned by Hengyu to Huari at a consideration of RMB19,600,000.

On 21 May 2012, the Group entered into an agreement with Fancy Collection Inc. to transfer 25% equity interests of its subgroup engaged in the household products business to Fancy Collection Inc. at a consideration of HK$45,000,000, and the deal was completed on 24 May 2012.

In addition, as the leases of some of the plants and office buildings rented from Huari in the old factory area that were used for the Group's household products business has expired on 31 December 2012, and Huari has entered into a sale and purchase agreement with the local development zone government with regard to the aforementioned properties, it is anticipated that Huari will relocate before 31 December 2012, but it has not taken any action so far. The Group has reached an agreement on a monthly basis with Huari to renew the lease arrangement, but there is a good chance that the Group may have to move out of the aforementioned properties on a short notice (e.g. within a month).

Considering the continuing losses in the household products business, the costs to be spent on the relocation of plants and office buildings and the potential downtime losses during relocation, as well as the uncertain prospect in both the domestic and international household products market, the Group entered into an agreement with Future Step Development Limited on 4 February 2013 to transfer the remaining 75% equity interests of the subgroup engaged in the household products business to Future Step Development Limited at a consideration of HK$70,000,000. An extraordinary general meeting is yet to be held specially to approve the deal.

We anticipate that the Group can take the opportunity of the household products business to stop investment in the businesses entailing continuing losses, so as to lower its operating costs and risks and provide additional funds for its daily operation.

PROSPECTS

After selling the household products business, the Group will terminate its manufacturing business and mainly focus on its funeral business in Hong Kong and Mainland China. According to its current plan, after acquiring sufficient funds, the Group will input resources in developing Huidong County Huaqiao Cemetery if conditions permit, including the landscaping and the construction of pavements and canals in the cemetery. Relevant works are expected to be completed in 2013, and Huidong County Huaqiao Cemetery can come into operation thereafter. The cemetery is expected to generate revenue at the beginning of 2014. In respect of the funeral business in Hong Kong, the Group will strengthen promotion and advertising investment as well as personnel training to increase the utilization ratio of Grand Peace Funeral Parlour.

The Group will also continue to seek and identify other businesses that are conducive to bringing more robust profits, and forming growth points through acquiring and developing different businesses. We believe that the strategy of diversification will increase the value of our shareholders and spread business risks.

DISPOSAL OF INTEREST IN A SUBSIDIARY

On 21 May 2012, General Asia Holdings Limited ("General Asia"), a wholly-owned subsidiary of the Group, as vendor, Fancy Collection Inc. ("Fancy Collection"), as Purchaser, and Ms. Ren Cui Fang, as Guarantor, entered into a sale and purchase agreement pursuant to which General Asia has agreed to acquire and Fancy Collection has agreed to sell 2,500 ordinary shares of US$1 in the issued share capital of Trader Group International Limited (the "Target", an indirectly wholly-owned subsidiary of the Company) representing 25% of the entire issued share capital of the Target, for a consideration of HK$45,000,000. The transaction has been completed on 24 May 2012.

The disposal constitutes a discloseable transaction under the GEM Listing Rules. For details, please refer to the Company's announcement dated 21 May 2012.

MATERIAL ACQUISITION

On 15 December 2011, a direct wholly-owned subsidiary of the Company, EMAX Venture Limited ("EMAX") entered into a sale and purchase agreement with Mr. Lau Chi Yan, Pierre ("Mr. Lau") pursuant to which EMAX conditionally agreed to acquire and Mr. Lau conditionally agreed to sell the entire issued share capital of Profit Value Group Limited ("Profit Value") and the entire amount of shareholder's loan owning by Profit Value to Mr. Lau as at the date of completion of the transaction at a consideration of HK$80 million in cash.

The principal asset of Profit Value is its holding of, through The Shrine of Nansha Limited,100% equity interest in the Ming De Tang Trading (Shenzhen) Limited Company* (明德堂貿易（深圳）有限公司) ("Ming De Tang"), which is the sole subcontractor of Huidong County Huaqiao Cemetery Management Company* (惠東縣華僑墓園管理公司) (the "PRC Cemetery Company") and is responsible for the provision of all funeral-related services and products and assistance necessary for the operation of the Huidong County Huaqiao Cemetery* (惠東縣華僑墓園) under the subcontracting agreement dated 15 December 2011 entered into between Ming De Tang and the PRC Cemetery Company.

The transaction has been approved by shareholders of the Company at the special general meeting of the Company held on 12 March 2012. The transaction has been completed on 10 April 2012.

On 29 May 2012, EMAX and Mr. Lau entered into a supplemental agreement, pursuant to which the parties agreed that the Consideration shall be paid in cash by installments before 9 March 2013 for a discount to the Consideration, which is agreed to be HK$72,000,000 (the "Discounted Consideration"). The parties further agreed that the Discounted Consideration shall be paid in Hong Kong or in the PRC; The payment date, amount and payee of each installments (i.e. Mr. Lau or its nominee) shall be negotiated by the Parties from time to time. In the event that a nominee of Mr. Lau shall be the payee for any of the installments, Mr. Lau shall give a written notice to EMAX for the same immediately and EMAX shall pay within 5 business days upon receipt of such notice.

For details, please refer to the announcements of the Company dated 15 December 2011, 10 January 2012, 20 January 2012, 12 March 2012 and 29 May 2012 respectively and the circular dated 24 February 2012.

ISSUE OF CONVERTIBLE NOTES

On 3 September 2012, the Company and the Sun Finance Company Limited entered into a subscription agreement in respect of the issue of the convertible notes ("Convertible Notes") in the principal amount of HK$35,000,000. The Convertible Notes shall carry an interest of 42% per annum payable in arrears monthly, the conversion price is initially HK$0.10 per share, subject to adjustment for subdivision or consolidation of shares of the Company. The Convertible Notes will mature on the date falling on four months from the date of issue or, subject to the agreement between the noteholder(s) and the Company, extended to the date falling eight months from the date of issue, the noteholder(s) shall have the right to convert the whole or part of the principal amount of the Convertible Notes into the ordinary shares of the Company on the date falling three (3) business days prior to the maturity date at the then prevailing conversion price.

The net proceeds from the Convertible Notes of approximately HK$34,500,000 have been used (i) as to approximately HK$20,000,000 for repayment of loan; and will be used (ii) as to approximately HK$14,500,000 for the general working capital of the Group.

The new share(s) which may fall to be allotted and issued upon exercise of the conversion rights attaching to the Convertible Notes, at the then effective conversion price, will be issued under the general mandate to allot, issue and deal with shares granted to the Directors at the annual general meeting of the Company held on 7 May 2012.

For details, please refer to the announcement of the Company dated 3 September 2012.

As as 31 December 2012, the aggregate outstanding principal amount of the Convertible Notes were HK$35,000,000. The exercise in full of the vested conversion rights would result in the issue and allotment of 350,000,000 new shares of the Company.

PROPOSED PLACING OF CONVERTIBLE NOTES

On 17 October 2012, the Company and the Sun Securities Limited entered into a placing agreement (the "Placing Agreement"), pursuant to which the Sun Securities Limited agreed to procure, on a best efforts basis, independent placees to subscribe in cash for the convertible notes of ("Convertible Notes") up to an aggregate principal amount of HK$100,000,000. Assuming the Convertible Notes are placed in full, the maximum gross proceeds from the placing of the Convertible Notes is HK$100,000,000 and the maximum net proceeds from the placing of the Convertible Notes (after deducting related expenses) are estimated to be approximately HK$98.45 million. The net proceeds from the Convertible Notes will be used (i) as to approximately HK$36.3 million for repayment of existing convertible notes (details are set out in the section headed "Issue of Convertible Notes" above) and interest accrued thereon; and (ii) the remaining amount for the general working capital of the Group and investment in any potential business opportunity, if any.

The initial conversion price is HK$0.0673 per conversion share ("Conversion Share", and subject to adjustment in accordance with the terms and conditions of the Convertible Notes). Assuming the Convertible Notes in an aggregate principal amount of HK$100,000,000 are placed in full, and upon full conversion of the Convertible Notes, a maximum of 1,485,884,101 Conversion Shares will be issued, representing (i) approximately 84.5% of the existing issued share capital of the Company of 1,758,355,970 Shares; and (ii) approximately 45.8% of the Company's issued share capital as enlarged by the issue of the Conversion Shares.

The Placing Agreement and the transactions contemplated thereunder has been approved at the special general meeting of the Company held on 23 November 2012.

For details, please refer to the announcements of the Company dated 17 October 2012, 23 November 2012 respectively and the circular dated 8 November 2012.

EVENT AFTER THE REPORTING PERIOD

Details of the significant event after the reporting period of the Group are set out in note 46 to the financial statements.

FINANCIAL REVIEW

The Group generated approximately HK$233,397,000 in total revenue in 2012, representing an increase of 17.52% as compared with year 2011.

The breakdown of the turnover is set out below:

	2012		2011		
	HK$ million	**%**	HK$ million	%	Change
Manufacturing and sales of household products					
PRC indirect retail sales (discontinued)	**193.9**	**83.08%**	162.1	81.62%	19.62%
PRC direct retail sales (discontinued)	**–**	**–**	21.5	10.83%	
Export sales (discontinued)	**0.3**	**0.13%**	7.4	3.72%	(95.95%)
Provision of funeral services and sales of funeral related products	**39.2**	**16.79%**	7.6	3.83%	415.79%
Total	**233.4**	**100%**	198.6	100%	

SIGNIFICANT INVESTMENT

The Group had no significant investment held in the year ended 31 December 2012.

LIQUIDITY AND FINANCIAL RESOURCES

All the Group's funding and treasury activities are basically managed and controlled by the senior management. There was no significant change in respect of treasury and financing policies from the information disclosed in the Group's annual report of 2012.

As at 31 December 2012, cash and bank balances of the Group was approximately HK$19,258,000 (2011: HK$50,416,000), approximately 84.70% of the Group's cash was denominated in Renminbi and 12.85% of the Group's cash was denominated in Hong Kong Dollars. The Group's exposure to exchange fluctuation was minimal.

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

As at 31 December 2012, the total borrowings of the Group amounted to approximately HK$39,056,000 (2011: approximately HK$11,000), representing (i) obligation under finance leases of approximately HK$75,000 in total, the weighted average effective interest rate on finance lease was approximately 2% per annum and the term entered into ranged from three to five years; (ii) liability component of convertible notes of approximately HK$34,981,000, the effective interest rate is 57% per annum; and (iii) other loan of HK$4,000,000 which is unsecured, interest free and repayable on demand.

CAPITAL STRUCTURE

The total number of issued shares of the Company was 1,758,355,970 as at 31 December 2012.

EMPLOYEE AND REMUNERATION POLICY

As at 31 December 2012, the Group had employed 58 employees in Hong Kong and 1,079 employees in PRC (as at 31 December 2011: 10 employees in Hong Kong and 1,082 employees in PRC), they were remunerated in accordance with their performance and market condition. Other benefits available to eligible employees include retirement benefits and medical insurance schemes. Total staff costs for the year 2012 amounted to approximately HK$25,905,000 (2011: approximately HK$31,936,000).

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.

CHARGE ON GROUP'S ASSETS

Save as the finance lease contract for the Group's office equipment and pledged bank deposits, the Group did not have any other charge on its assets as at 31 December 2012 (2011: Save as the finance lease contract for the Group's office equipment, the Group did not have any other charge on its assets).

GEARING RATIO

As at 31 December 2012, the Group's gearing ratio was approximately 21.97% representing a percentage of the total borrowings over shareholders' equity (2011: 0.01%), and the net current assets was approximately HK$125,431,000 (2011: approximately HK$232,381,000).

FOREIGN CURRENCY EXPOSURE

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

CONTINGENT LIABILITIES

The Group and the Company had no contingent liabilities at 31 December 2012 (2011: nil).

BIOGRAPHICAL DETAILS OF DIRECTORS AND COMPANY SECRETARY

EXECUTIVE DIRECTORS

Mr. Li Ge, aged 44, was appointed as an executive Director on 31 August 2006. He obtained a diploma in financial accountancy and a diploma in law from Hebei University, after that, he obtained a master of science in engineering from Wuhan Industry University (currently known as Wuhan University of Technology). Past experience includes being the executive director and senior consultant of Lang Fang Huari Furniture Joint Stock Co. Limited. Mr. Li has experience in the management of PRC listed company and Hong Kong listed company, and in the management of production and sales of household products in China. Mr. Li became a member of Chinese Institute of Certified Public Accountants in 1994. Mr. Li has joined our Group since March 2006, he now holds directorship in Alwin Asia Investment Limited, Tedwood International Limited, Ming Ting Rui He (Beijing) Trading Limited, General Asia Holdings Limited, EMAX Venture Limited, Able Profit (Hong Kong) Limited, Profit Value Group Limited, The Shrine of Nansha Limited and Most Fame (China) Limited which are all wholly-owned subsidiaries of the Company, he is also a director of South China Memorial Park & Funeral Service Limited, an indirect non-wholly-owned subsidiary of the Company where Able Profit (Hong Kong) Limited holds 60% of its total issued shares.

Mr. Zhao Guo Wei, aged 49, was appointed as an executive Director on 6 July 2006. He obtained a diploma in accountancy from Shandong China Accounting Postal Tuition School (山東省中華會計函授學校), and has over 26 years of experience in management of household products manufacturing including production flow path control and production cost control. Mr. Zhao's past experience includes his appointments as the General Manager of Quality Control Department of a furniture company in Langfang city.

Mr. Sun, Miguel, aged 40, was appointed as an executive Director on 24 February 2012. He graduated from International Hotel Management Institute, Switzerland in 1994. Mr. Sun has served as a management trainee for the Crux Global Hotel Reservation Limited. He has also served as the business development manager for the Chant An Group in Taiwan, which designs and builds hotels, hospitals, and semi-conductor plants. Mr. Sun is the founder and director of Netica Venture Limited, a venture capital company that focuses on wireless communications and the internet. Mr. Sun is now acting as director of Most Fame (China) Limited (a directly wholly-owned subsidiary of the Company), Able Profit (Hong Kong) Limited (an indirectly wholly-owned subsidiary of the Company) and South China Memorial Park & Funeral Service Limited (an indirect non-wholly-owned subsidiary of the Company).

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Liu Qing Chen, aged 44, was appointed as an independent non-executive Director on 18 November 2011. He holds a Bachelor of Economics in Accounting from the Central University of Finance and Economics (formerly known as Central Institute of Finance and Banking). He also holds a Master of Economics from the Capital University of Economics and Business majoring in Banking. Mr. Liu is a member of The Chinese Institute of Certified Public Accountants, and is currently a CPA in Xingtai Jinzheng Certified Public Accounts Co., Limited. He has over 22 years of experience in auditing, accounting and financial management. Mr. Liu is also the chairman of the Audit Committee, Remuneration Committee and Nomination Committee of the Company.

Mr. Zhang Chun Qiang, aged 41, was appointed as an independent non-executive Director on 24 February 2012. He holds a Bachelor's Degree of Management from Hebei University, major in Business Management. Mr. Zhang is a member of The Chinese Institute of Certified Public Accountants, he has engaged in various auditing works in several PRC certified public accountants firms like Beijing Lianda Xinlong Certified Public Accounts Co., Ltd.. Mr. Zhang currently served as a deputy director of the Accounting Information Department of Metallurgical Corporation of China Limited, he has over 23 years of experience in accounting and auditing. Mr. Zhang is also a member of the Audit Committee, Remuneration Committee and Nomination Committee of the Company.

BIOGRAPHICAL DETAILS OF DIRECTORS AND COMPANY SECRETARY

Ms. Tan Xiao Yan, aged 44, holds a Bachelor's Degree of Economics from Xiamen University (廈門大學), and a Degree of Master in Shipping and Transport from Netherlands Maritime University. Ms. Tan currently served as an associate professor (副教授) of Tangshan Industrial Vocational Technical College (唐山工業職業技術學院), she has over 22 years of experience. Ms. Tan is also a member of the Audit Committee, Remuneration Committee and Nomination Committee of the Company.

COMPANY SECRETARY

Mr. Chan Yuk Hiu, Taylor, aged 34, holds a Diploma (Honours) in Accounting from Hong Kong Shue Yan College (currently known as Hong Kong Shue Yan University) and a Master of Science in Accountancy from The Hong Kong Polytechnic University. Mr. Chan is an associate member of the Hong Kong Institute of Certified Public Accountants and a fellow member of the Association of Chartered Certified Accountants, he has worked in certified public accountants firms and participated in various audit and accounting works. He has over 13 years experiences in professional accounting practices.

The Directors are pleased to present their report and the audited financial statements of FAVA International Holdings Limited (hereinafter referred to as the "Company") and its subsidiaries (hereinafter referred to as the "Group") for the year ended 31 December 2012.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. Details of the principal activities of its subsidiaries are set out in note 1 to the financial statements. There were no significant changes in the nature of the Group's principal activities during the year.

SEGMENTAL INFORMATION

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

RESULTS AND DIVIDENDS

The Group's loss for the year ended 31 December 2012 and the state of affairs of the Company and the Group at the balance sheet date are set out in the financial statements on pages 28 to 31.

No dividend has been declared or proposed by the Directors of the Company in respect of the year ended 31 December 2012 (2011: Nil).

SUMMARY FINANCIAL INFORMATION

A summary of the published results and assets, liabilities and minority interests of the Group for the last five financial years, as extracted from the audited financial statements and restated/reclassified as appropriate, is set out on page 100. This summary does not form part of the audited financial statements.

PROPERTY, PLANT AND EQUIPMENT

Details of movements in the property, plant and equipment of the Group during the year are set out in note 18 to the financial statements.

ASSETS CLASSIFIED AS HELD FOR SALE

Details of movements in the assets classified as held for sale of the Group during the year are set out in note 29 to the financial statements.

SHARE CAPITAL AND SHARE OPTIONS

Details of movements in the Company's share capital and share options during the year are set out in notes 37, 38 and 42 to the financial statements respectively.

PRE-EMPTIVE RIGHTS

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

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

The Company or any of its subsidiaries has not purchased, sold or redeemed any of the Company's listed securities during the year ended 31 December 2012.

RESERVES

Details of movements in the reserves of the Company and the Group during the year are set out in note 39 to the financial statements and in the consolidated statement of changes in equity as set out in the financial statements on page 32.

MAJOR CUSTOMERS AND SUPPLIERS

In the year under review, Income from sales of goods and provision of services to the Group's five largest customers accounted for 33.6% of the total turnover for the year and Income from sales of goods and provision of services to the largest customer included therein amounted to 9.4%. Expenses arising from purchases of goods and provision of services from the Group's five largest suppliers accounted for 29.1% of the total cost of sales for the year and expenses arising from purchases of goods and provision of services from the largest supplier included therein amounted to 15.1%.

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

DONATION

Charitable and other donations made by the Group during the year amounted to approximately HK$25,000 (2011: Nil).

PENSION SCHEMES

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

DIRECTORS

The Directors of the Company during the year and as at the date of this report were:

Executive Directors:

Mr. Li Ge
Mr. Zhao Guo Wei
Mr. Sun, Miguel (appointed on 24 February 2012)

Independent non-executive Directors:

Mr. Liu Qing Chen
Mr. Yang Jie (resigned on 24 February 2012)
Mr. Yang Dongli (resigned on 4 January 2013)
Mr. Zhang Chun Qiang (appointed on 24 February 2012)
Ms. Tan Xiao Yan (appointed on 4 January 2013)

In accordance with bye-laws of the Company, Mr. Li Ge, Mr. Zhao Guo Wei, Mr. Sun, Miguel, Mr. Liu Qing Chen, Mr. Zhang Chun Qiang and Ms. Tan Xiao Yan shall retire by rotation and, being eligible, offer themselves for re-election at the forthcoming annual general meeting.

The Company has received annual confirmations of independence from all of the independent non-executive Directors pursuant to the requirement under Rule 5.09 of the GEM Listing Rules and considers that all of them are independent.

BIOGRAPHICAL DETAILS OF DIRECTORS AND COMPANY SECRETARY

Biographical details of the Directors and the company secretary of the Company are set out on pages 10 to 11 of the annual report.

DIRECTORS' SERVICE CONTRACTS

The executive Director, Mr. Li Ge, has entered into a service contract with the Company for a term of 2 years commencing from 1 January 2012 subject to termination in accordance with the provisions of the service contract or by not less than 2 months' notice in writing served by Mr. Li on the Company, or by not less than one month's notice in writing served by the Company on Mr. Li for good reason(s).

The executive Directors, Mr. Zhao Guo Wei and Mr. Sun, Miguel, the independent non-executive Directors, Mr. Liu Qing Chen and Mr. Zhang Chun Qiang, were all appointed by way of formal appointment letters for an initial term of one year renewable by mutual agreement in writing two months in advance prior to the expiry of the initial appointment term for successive terms of one year.

The independent non-executive Director, Ms. Tan Xiao Yan, was appointed by way of a formal appointment letter for a term of one year with automatic renewal subject to termination by not less than one month's notice in writing served by either party on the other.

Each of the Directors is subject to retirement by rotation and re-election at the annual general meeting of the Company in accordance with the bye-laws of the Company.

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

DIRECTORS' REMUNERATION

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

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

DIRECTORS' INTERESTS IN CONTRACTS

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

As at 31 December 2012, none of the Directors had any direct or indirect interest in any assets which were acquired or disposed of by, or leased to, the Company or any of its subsidiaries, or are proposed to acquired or disposed of by, or lease to, the Company or any of its subsidiaries.

OLD SHARE OPTION SCHEME

Pursuant to the share option scheme adopted by the shareholders of the Company on 24 May 2002 (the "Old Share Option Scheme"), the Board could for a consideration of HK$1.00 offer to selected eligible persons (as defined in the circular of the Company dated 6 May 2002) to subscribe for shares of the Company as incentive or rewards for their contribution to the Group. The Old Share Option Scheme became effective on 24 May 2002 (the date on which the Old Share Option Scheme was adopted) and terminated on 9 December 2010.

During year 2012, the number of share options outstanding under the Old Share Option Scheme were 27,600,000, all of which lapsed during the year under review.

NEW SHARE OPTION SCHEME

On 9 December 2010, the company adopted a new share option scheme (the "New Share Option Scheme"). Pursuant to the New Share Option Scheme, the Board may for a consideration of HK$1.00 offer to selected eligible persons (as defined in the circular of the Company dated 23 November 2010) to subscribe for shares of the Company as incentive or rewards for their contribution to the Group. The subscription price will be determined by the Board in its absolute discretion, in any event, shall not be less than the higher of the nominal value for the time being of each share of the Company, the average closing price of the shares of the Company as stated in the Stock Exchange's daily quotations sheets for the five business days immediately preceding the date on which the relevant option is granted and the closing price of the shares of the Company as stated in the Stock Exchange's daily quotation sheet on the date on which the relevant option is granted.

The maximum number of shares in respect of which options may be granted under the New Share Option Scheme and other schemes of the Company may not, in aggregate, exceed 30% of the issued share capital of the Company from time to time which have been duly allotted and issued. The total number of shares issued and to be issued upon exercise of the options granted (including both exercised and outstanding options) in any 12-month period to each eligible person shall not exceed 1% of the shares in issue. If any further grant of options to such eligible person which would result in the shares issued or to be issued upon exercise of all options granted or to be granted to such eligible person (including exercised, cancelled and outstanding options) in the 12-month period up to and including the date of further grant would exceed 1% of the shares in issue, such grant must be separately approved by shareholders in general meeting, with such eligible person and its associates abstaining from voting. A shareholders' circular containing the information required by the GEM Listing Rules shall be despatched to the shareholders. An option may be exercised in whole or in part at any time during the Option Period (as defined in the circular of them Company dated 23 November 2010).

The total number of securities available for issue under the New Share Option Scheme is 527,506,791, representing 30% of the issued shares of the Company as at the date of this report.

The New Share Option Scheme became effective for a period of 10 years commencing on 9 December 2010 (the date on which the New Share Option Scheme was adopted).

The details and major provisions of the New Share Option Scheme were set out in the circular of the Company dated 23 November 2010.

The Company has not grant any options under the New Share Option Scheme for the year ended 31 December 2012.

As at the date of this report, none of the Directors or chief executives of the Company held any share options.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

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

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 OF THE COMPANY AND ITS ASSOCIATED CORPORATIONS

As at 31 December 2012, 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

	Number of shares held, capacity and nature of interest					
Name of director	**Directly beneficially owned**	**Through spouse or minor children**	**Through controlled corporation** (Note 2)	**Beneficiary of a trust**	**Total**	**Approximate percentage of the Company's total issued capital** (Note 1)
Mr. Li Ge	160,548,000	–	351,598,000	–	512,146,000	29.12%

Note:

(1) The percentage is calculated by dividing the number of shares interested or deemed to be interested by the existing 1,758,355,970 issued shares as at 31 December 2012.

(2) Mr. Li Ge beneficially owns the entire issued share capital of True Allied Assets Limited. Therefore, Mr. Li Ge is deemed, or taken to be, interested in all the shares held by True Allied Assets Limited for the purpose of SFO.

Save as disclosed above, as at 31 December 2012, 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 December 2012, 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 the Company's total issued share capital** (Note 1)
Substantial Shareholders			
True Allied Assets Limited	Beneficial owner	351,598,000	19.99%

Note:

(1) The percentage is calculated by dividing the number of shares interested or deemed to be interested by the existing 1,758,355,970 issued shares as at 31 December 2012.

Save as disclosed above, as at 31 December 2012, the Directors are not aware of any other persons, 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.

SUFFICIENCY OF PUBLIC FLOAT

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

COMPETING INTEREST

None of the Directors or the substantial shareholders of the Company (as defined in the GEM Listing Rules) or their respective associates has any interest in any business which competed or might compete with the business of the Group during the year and as at the date of this report.

EXPOSURE IN EXCHANGE RATE FLUCTUATIONS

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

CORPORATE GOVERNANCE

Principal governance practices adopted by the Company are set out in the Corporate Governance Report in pages 18 to 25.

EVENT AFTER THE REPORTING PERIOD

Details of the significant event after the reporting period of the Group are set out in note 46 to the financial statements.

AUDIT COMMITTEE

The Company has established an audit committee (the "Audit Committee") on 7 July 2000 with its written terms of reference pursuant to Rules 5.28 to 5.33 of the GEM Listing Rules. Approved by the directors attending the Board meeting held on 1 March 2012, a new terms of reference were adopted by the Audit Committee, please refer to the announcement of the Company dated 12 March 2012 under the heading "Audit Committee Terms of Reference" for details. As at 31 December 2012, the audit committee comprised three members, namely Mr. LIU Qing Chen, Mr. YANG Dongli (resigned on 4 January 2013) and Mr. ZHANG Chun Qiang, all being independent non-executive Directors of the Company. As at the day of this report, the audit committee comprised three members, namely Mr. LIU Qing Chen, Ms. Tan Xiao Yan (appointed on 4 January 2013) and Mr. ZHANG Chun Qiang, all being independent non-executive Directors of the Company.

The primary duties of the Audit Committee are to review and supervise the financial reporting process, audit plan and relationship with external auditors, the internal control systems of the Group and to provide advices and recommendations to the Board for review and follow-up. During the year, the audit committee had held 5 meetings. The Audit Committee has reviewed the Group's financial statements for the year ended 31 December 2012 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.

AUDITORS

A resolution for the reappointment of Messrs. HLB Hodgson Impey Cheng Limited as auditors of the Company will be proposed at the forthcoming annual general meeting.

There have been no changes of auditors in the past three years.

On behalf of the Board
Mr. Li Ge
Executive Director

Hong Kong
20 March 2013

The Company is committed to achieving high standards of corporate governance and following the principles set out in the Code on Corporate Governance Practices for GEM listed companies for the period from 1 January 2012 to 31 March 2012 and the Corporate Governance Code for the period from 1 April 2012 to 31 December 2012 set out in Appendix 15 of the GEM Listing Rules (the "CG Code").

During the year, save as disclosed in the paragraphs headed "Chairman and the Chief Executive Officer" (Code Provision A.2.1) and "Directors' Attendance of the General Meetings" (Code Provision A.6.7) below, the Company complied with and did not deviate from the code provisions as set out in the CG Code.

The Board regularly monitors and reviews the Group's progress in respect of corporate governance practices to ensure compliance.

CODE OF CONDUCT REGARDING SECURITIES TRANSACTIONS BY DIRECTORS

During the year ended 31 December 2012, 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.

BOARD OF DIRECTORS

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

The Board members during the year ended 31 December 2012 and on the date of this report were:

Executive Directors

Mr. Li Ge *(Chairman and Chief Executive Officer)*
Mr. Zhao Guo Wei
Mr. Sun, Miguel (appointed on 24 February 2012)

Independent non-executive Directors

Mr. Liu Qing Chen
Mr. Zhang Chun Qiang (appointed on 24 February 2012)
Ms. Tan Xiao Yan (appointed on 4 January 2013)
Mr. Yang Dongli (resigned on 4 January 2013)

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

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

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

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

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

No corporate governance committee has been established by the Company and the Board is responsible for performing the corporate governance duties, which included:

(1) developing and reviewing the policies and practices on corporate governance of the Company and its subsidiaries (collectively, the "**Group**");

(2) to review and monitor the training and continuous professional development of Directors and senior management;

(3) to review and monitor the Group's policies and practices on compliance with legal and regulatory requirements;

(4) to develop, review and monitor the code of conduct and compliance manual (if any) applicable to Directors and employees; and

(5) to review the Company's compliance with the CG Code and disclosure in the corporate governance report of the Company.

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

CHANGE OF DIRECTORS

Mr. Yang Jie resigned as an independent non-executive Director, audit committee member, remuneration committee member and nomination committee member of the Company on 24 February 2012 and Mr. Zhang Chun Qiang has been appointed as an independent non-executive Director, audit committee member, remuneration committee member and nomination committee member of the Company to replace Mr. Yang Jie on the same day.

Mr. Yang Dongli resigned as an independent non-executive Director, audit committee member, remuneration committee member and nomination committee member of the Company on 4 January 2013 and Ms. Tan Xiao Yan has been appointed as an independent non-executive Director, audit committee member, remuneration committee member and nomination committee member of the Company to replace Mr. Yang Dongli on the same day.

The Board held 19 meetings during the year ended 31 December 2012. Details of the attendance of the Board meetings are as follows:

Name of Directors	Notes	**Meetings attended/held**	**Attendance rate**
Executive Directors			
Mr. Li Ge *(chairman and chief executive officer)*		19/19	100%
Mr. Zhao Guo Wei		19/19	100%
Mr. Sun, Miguel	1	17/17	100%
Independent non-executive Directors			
Mr. Liu Qing Chen		19/19	100%
Mr. Yang Dongli		19/19	100%
Mr. Zhang Chun Qiang	2	17/17	100%
Mr. Yang Jie	3	2/2	100%

The following matters were discussed in the Board meetings held in 2012:

(1) To consider and approve a major transaction in relation to the acquisition of the entire issued shares in Profit Value Group Limited;

(2) to approve the appointment of Mr. Sun, Miguel as Executive Director;

(3) to approve the appointment of Mr. Zhang Chun Qiang as independent non-executive Director, audit committee member, remuneration committee member and nomination committee member of the Company;

(4) to approve the resignation of Mr. Yang Jie as independent non-executive Director, audit committee member, remuneration committee member and nomination committee member of the Company;

(5) to approve the proposed amendments to the bye-laws of the Company;

(6) to consider and approve the establishment of nomination committee and to appoint the members and chairman of the nomination committee of the Company;

(7) to consider and approve the terms of reference of nomination committee, remuneration committee and audit committee of the Company;

(8) to consider and approve the disposal of a plant of Langfang Huari Hengyu Home Co., Ltd.;

(9) to consider and approve the disposal of 25% the issued shares in Trader Group International Limited (an indirect wholly-owned subsidiary of the Company before the disposal);

(10) to consider and approve the terms of reference regarding corporate governance duties of the Board;

(11) to consider and approve the terms of shareholders communication policy;

(12) to consider and approve the short-term loan of the Group and relevant issues;

(13) to approve waiver of current accounts between the Group Companies;

(14) to consider and approve the issue of the convertible notes;

(15) to approve the internal risks discussion report;

(16) to consider and approve the issue of promissory notes;

(17) to consider and approve the quarterly, interim and annual results of the Group.

Notes:

(1) was appointed on 24 February 2012

(2) was appointed on 24 February 2012

(3) resigned on 24 February 2012

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

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

DIRECTORS' ATTENDANCE OF THE GENERAL MEETING (CODE PROVISION A.6.7)

Pursuant to Code Provision A.6.7 (which is effective from 1 April 2012), independent non-executive Directors should attend general meetings of the Company and develop a balanced understanding of the views of shareholders.

During the year ended 31 December 2012, the Company held 4 general meetings, being 3 special general meetings held on 12 March 2012, 28 March 2012 and 23 November 2012 respectively, and 1 annual general meeting held on 7 May 2012.

Details of the attendance of the general meetings held in 2012 are as follows:

Name of Directors	Notes	Meetings attended/held (before 1 April 2012)	Meetings attended/held (after 1 April 2012)
Executive Directors			
Mr. Li Ge *(chairman and chief executive officer)*		2/2	2/2
Mr. Zhao Guo Wei		0/2	0/2
Mr. Sun, Miguel	1	0/2	0/2
Independent non-executive Directors			
Mr. Liu Qing Chen		0/2	1/2
Mr. Yang Dongli		0/2	0/2
Mr. Zhang Chun Qiang	2	0/2	0/2
Mr. Yang Jie	3	N/A	N/A

Notes:

(1) was appointed on 24 February 2012

(2) was appointed on 24 February 2012

(3) resigned on 24 February 2012

The Group deviates from Code Provision A.6.7 of the CG Code. Because of prior business commitment, Mr. Liu Qing Chen was unable to attend the special general meeting held on 23 November 2012, Mr. Yang Dongli and Mr. Zhang Chun Qiang were unable to attend the annual general meeting held on 7 May 2012 and the special general meeting held on 23 November 2012.

Because of prior business commitment, Mr. Zhao Guo Wei and Mr. Sun, Miguel were unable to attend the annual general meeting held on 7 May 2012 and the special general meeting held on 23 November 2012.

DIRECTORS' TRAINING

Each newly appointed director has received comprehensive, formal and tailored induction on appointment so as to ensure that he/she has appropriate understanding of the business and operations of the Group and that he/she is fully aware of his/her responsibilities under the GEM Listing Rules and relevant regulatory requirements.

Pursuant the Code Provision A.6.5 of the CG Code, all Directors should participate in continuous professional development to develop and refresh their knowledge and skills. This is to ensure that their contribution to the Board remains informed and relevant. During the year, all Directors have participated in appropriate continuous professional development activities by ways of studying the information in relation to the Group's business or reading materials relevant to the director's duties and responsibilities.

DIRECTORS' AND OFFICERS' LIABILITIES INSURANCE

Appropriate insurance cover for Directors' and officers' liabilities in respect of legal actions against the Directors and officers of the Company and its subsidiaries arising out of corporate activities of the Group has been arranged by the Group.

CHAIRMAN AND THE CHIEF EXECUTIVE OFFICER (CODE PROVISION A.2.1)

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

– the Board acts in the best interests of the Group; and

– 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 of the CG Code. The roles of chairman and chief executive officer of the Group rests on the same individual without having a clear division of responsibilities. However, the Board is of the view that, such non-compliance does not compromise accountability and independent decision making for the following reasons:

– the three independent non-executive Directors form half of the six-member Board;

– the audit committee, remuneration committee and the nomination committee are 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 is continuously dedicated to contribute to the growth and profitability of the Group. The Board considered it to be more efficient for the Group to have an executive chairman, which provide the Board with a strong and consistent leadership to guide discussions and brief the Board in a timely manner on pertinent issues and their progress, facilitate open dialogue between the Board and the management, thus it is in the best interests of the Group.

APPOINTMENTS, RE-ELECTION AND REMOVAL

The independent non-executive Directors, Mr. Liu Qing Chen and Mr. Zhang Chun Qiang, were appointed by way of formal appointment letters for an initial term of one year renewable by mutual agreement in writing two months in advance prior to the expiry of the initial appointment term for successive terms of one year. The independent non-executive Director, Ms. Tan Xiao Yan, was appointed by way of a formal appointment letter for a term of one year with automatic renewal subject to termination by not less than one month's notice in writing served by either party on the other.

Each of the Directors is subject to retirement by rotation and re-election at the annual general meeting of the Company in accordance with the bye-laws of the Company.

REMUNERATION COMMITTEE

The remuneration committee comprises the three independent non-executive Directors as at 31 December 2012, namely Mr. Liu Qing Chen (chairman), Mr. Yang Dongli and Mr. Zhang Chun Qiang. Mr. Yang Dongli resigned as a remuneration committee member of the Company on 4 January 2013, his position was replaced by Ms. Tan Xiao Yan.

The principal functions include:

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

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

– to review and approve their performance-based remuneration.

The written terms of reference of the remuneration committee is available on the website of the Company and the Stock Exchange.

During the year ended 31 December 2012, the remuneration committee has held 1 meeting to review and recommend on the remuneration packages of a newly appointed executive director and a newly appointed independent non-executive Director Company. All three committee members have attended the meeting. No director has involved in deciding his own remuneration.

NOMINATION COMMITTEE

On 1 March 2012, the Board has established a nomination committee comprising Mr. Liu Qing Chen (an independent non-executive Director) as chairman of the nomination committee, and its members including Mr. Yang Dongli (an independent non-executive Director) and Mr. Zhang Chun Qiang (an independent non-executive Director), Mr. Yang Dongli resigned as a nomination committee member on 4 January 2013, his position was replaced by Ms. Tan Xiao Yan.

The written terms of reference of the nomination committee is available on the website of the Company and the Stock Exchange.

Given below are the main duties of the nomination committee of the Company:

(a) to review the structure, size and composition (including the skills, knowledge and experience) of the Board at least annually and make recommendations on any proposed changes to the Board to complement the Company's corporate strategy;

(b) to identify individuals suitably qualified to become Board members and select or make recommendations to the Board on the selection of individuals nominated for directorships;

(c) to assess the independence of Independent Non-executive Directors; and

(d) to make recommendations to the Board on the appointment or re-appointment of Directors and succession planning for Directors, in particular the Chairman of the Board and the chief executive.

During the period from its establishment day to 31 December 2012, the Nomination Committee did not hold any meeting.

AUDITORS' REMUNERATION

An amount of approximately HK$650,000 (2011: HK$650,000) was charged to the Group's income statement for the year ended 31 December 2012 as auditors' fee.

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

	HK$'000
Audit services	650
Services provided for proposed acquisition as reporting accountant	550
	1,200

AUDIT COMMITTEE

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

As at 31 December 2012, the Audit Committee comprises the three independent non-executive Directors, namely Mr. Liu Qing Chen, Mr. Yang Dongli and Mr. Zhang Chun Qiang. The chairman of the Audit Committee is Mr. Liu Qing Chen. Mr. Yang Dongli resigned as an audit committee member on 4 January 2013, his position was replaced by Ms. Tan Xiao Yan.

In year 2012, the Audit Committee has held 5 meetings which were attended by all the then three committee members. On the Audit Committee meeting held on 26 March 2012, the Audit Committee reviewed the 2011 financial results in conjunction with the external auditors. The primary duties of the Audit Committee are to review and supervise the financial reporting process, audit plan and relationship with external auditors, the internal control systems of the Group and to provide advices and recommendations to the Board for review and follow-up. The Group's 2012 quarterly reports, 2012 half-yearly report, 2011 and 2012 annual results and 2011 and 2012 annual reports have been reviewed by the Audit Committee and were recommended to the Board for approval, the Audit Committee was of the opinion that such reports and results were prepared in accordance with the applicable accounting standards and requirements. Audit Committee has reviewed the Company's internal control systems and was satisfied that the internal control system has functioned effectively. During the year, no material weakness was noted within any function or process. The committee also monitored the Company's progress in implementing the code provisions of corporate governance practices as required under the GEM Listing Rules.

The written terms of reference of the audit committee is available on the website of the Company and the Stock Exchange.

ACCOUNTABILITY AND INTERNAL CONTROLS

The Directors acknowledge their responsibility for preparing all information and representations contained in the consolidated financial statements of the Company for the year under review. As at 31 December 2012, the Directors have conducted a review of the effectiveness of the system of internal control of the Group and are not aware of any material uncertainties relating to events or conditions which may cost significant doubt upon the ability of the Company to continue as a going concern basis.

The statement of the external auditors of the Company about their reporting responsibilities on the Consolidated financial statements is set out in the auditors' report of the annual report of the Company for the year ended 31 December 2012.

COMPANY SECRETARY

Mr. Chan Yuk Hiu, Taylor has been appointed as Company Secretary since 1 May 2006. The Company Secretary is responsible for advising the Board through the Chairman on Board governance matters, and is responsible for ensuring that Board procedures are followed.

The biographical details of Mr. Chan are set out in the section headed "Biographical Details of Directors and Company Secretary" of this report. According to the newly introduced Rule 5.15 of the GEM Listing Rules, Mr. Chan has undertaken over 15 hours relevant professional training during the financial year ended 31 December 2012.

SHAREHOLDERS' RIGHTS

1. Convene Special General Meeting

Shareholder(s) holding at the date of deposit of the requisition not less than one-tenth of the paid up capital of the Company carrying the right of voting at general meetings of the Company shall at all times have the right, by written requisition to the Board or the Secretary of the Company, to require a special general meeting to be called by the Board for the transaction of any business specified in such requisition; and such meeting shall be held within two (2) months after the deposit of such requisition. If within twenty-one (21) days of such deposit the Board fails to proceed to convene such meeting the requisitionists themselves may do so in accordance with the provisions of Section 74(3) of the Companies Act 1981 of Bermuda.

The notice period to be given to all the registered Shareholders for consideration of the proposal raised by the Shareholder(s) concerned at the special general meeting varies according to the nature of the proposal as follows:

– at least twenty-one (21) clear days' and not less than ten (10) clear business days' notice in writing if the proposal constitutes a special resolution of the Company; and

– at least fourteen (14) clear days' and not less than ten (10) clear business days' notice in writing if the proposal constitutes an ordinary resolution of the Company.

2. Put Enquiries to the Board

Shareholders can direct their questions to Tricor Tengis Limited, the Company's branch registrar and transfer office in Hong Kong, about their shareholdings.

Shareholders also have the right to put enquiries to the Board, all enquiries shall be in writing and sent by post to the registered office of the Company in Hong Kong at Room 1005, 10/F., C.C. Wu Building, 302-8 Hennessy Road, Wanchai, Hong Kong or by email to fava@fava.com.hk or by fax to (852) 2723 8108 for the attention of Company Secretary.

3. Put Forward Proposals at Shareholders' Meetings

On the requisition in writing of either (i) any number of shareholder of the Company representing not less than one-twentieth of the total voting rights of all the shareholders having at the date of the requisition a right to vote at the meeting to which the requisition relates; or (ii) not less than 100 shareholders, the Company shall, at the expense of the requisitionists:

a) to give to shareholders of the Company entitled to receive notice of the next annual general meeting notice of any resolution which may properly be moved and is intended to be moved at that meeting;

b) to circulate to shareholders entitled to have notice of any general meeting sent to them any statement of not more than one thousand words with respect to the matter referred to in any proposed resolution or the business to be dealt with at that meeting.

The requisition must be signed by the requisitionists and deposited at the registered office of the Company in Hong Kong for the attention of the Company Secretary.

COMMUNICATIONS WITH SHAREHOLDERS AND INVESTORS

The Board communicates with the shareholders and investors through the annual general meetings and special general meetings. In compliance with the requirements of GEM Listing Rules, the Company released regular reports, announcements, circulars, notice of general meetings and associated explanatory documents on the website of the Stock Exchange and the Company's website at www.fava.com.hk. Shareholders and investors can get the latest information of the Company through these publications of the Company.

A copy of the memorandum of association and bye-laws of the Company has been published on the website of the Company and the website of the Stock Exchange. There has been no significant changes in the Company's constitutional documents during the year.

INDEPENDENT AUDITORS' REPORT

HLB 國衛會計師事務所有限公司
Hodgson Impey Cheng Limited

Chartered Accountants
Certified Public Accountants

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

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

We have audited the consolidated financial statements of FAVA International Holdings Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 28 to 99, which comprise the consolidated and company statements of financial position as at 31 December 2012, and the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

AUDITORS' RESPONSIBILITY

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

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

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

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Group and the Company as at 31 December 2012 and of the Group's loss and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

HLB Hodgson Impey Cheng Limited
Chartered Accountants
Certified Public Accountants

Hon Koon Fai, Alex
Practising Certificate Number: P05029

Hong Kong, 20 March 2013

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2012

	Notes	2012 HK$'000	2011 HK$'000
Continuing operations			
Turnover	7	**39,165**	7,644
Cost of sales		**(42,633)**	(7,124)
Gross (loss)/profit		**(3,468)**	520
Other revenue	7	**260**	201
Other net gain and loss	8	**6,987**	–
Selling and distribution costs		**(4,233)**	(403)
Administrative expenses		**(19,824)**	(8,409)
Loss from operations	9	**(20,278)**	(8,091)
Finance costs	10	**(8,000)**	(4)
Loss before taxation		**(28,278)**	(8,095)
Taxation	13	**–**	–
Loss for the year from continuing operations		**(28,278)**	(8,095)
Discontinued operations			
Loss for the year from discontinued operations	14	**(67,955)**	(44,425)
Loss for the year		**(96,233)**	(52,520)
Other comprehensive income for the year, net of tax			
Exchange differences on translating foreign operations		**1,345**	8,956
Total comprehensive loss for the year		**(94,888)**	(43,564)
Loss attributable to:			
Owners of the Company		**(80,210)**	(52,520)
Non-controlling interests		**(16,023)**	–
		(96,233)	(52,520)
Total comprehensive loss attributable to:			
Owners of the Company		**(78,914)**	(43,564)
Non-controlling interests		**(15,974)**	–
		(94,888)	(43,564)
Loss per share			
From continuing and discontinued operations			
– Basic and diluted (HK cents per share)	17	**(4.56)**	(2.99)
From continuing operations			
– Basic and diluted (HK cents per share)	17	**(1.27)**	(0.46)

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2012

	Notes	2012 HK$'000	2011 HK$'000
Non-current assets			
Property, plant and equipment	18	**3,559**	26,118
Intangible assets	20	**85,996**	1,013
Long-term prepayments	21	**–**	4,882
		89,555	32,013
Current assets			
Inventories	23	**138**	137,934
Financial assets at fair value through profit or loss	24	**3,129**	3,723
Trade receivables	25	**315**	42,216
Prepayments, deposits and other receivables	26	**1,875**	86,721
Cash and bank balances	27	**5,352**	50,416
Pledged bank deposits	28	**28,240**	1,390
		39,049	322,400
Assets classified as held for sale	29	**249,123**	23,924
		288,172	346,324
Less: Current liabilities			
Trade payables	30	**362**	46,009
Other payables and accruals	31	**35,005**	8,632
Receipts in advance	32	**670**	54,241
Amount due to a director	33	**11,043**	50
Amount due to a shareholder	34	**4,000**	5,000
Obligations under finance lease – due within one year	35	**24**	11
Convertible notes	36	**34,981**	–
		86,085	113,943
Liabilities directly associated with assets classified as held for sale	29	**76,656**	–
		162,741	113,943
Net current assets		**125,431**	232,381

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2012

	Notes	2012 HK$'000	2011 HK$'000
Total assets less current liabilities		**214,986**	264,394
Less: Non-current liability			
Obligations under finance lease – due after one year	35	**51**	–
Net assets		**214,935**	264,394
Capital and reserves			
Share capital	37	**3,517**	3,517
Reserves	39(a)	**174,223**	260,885
Total equity attributable to owners of the Company		**177,740**	264,402
Non-controlling interests		**37,195**	(8)
Total equity		**214,935**	264,394

Approved by the Board of Directors on 20 March 2013 and signed on its behalf by:

Mr. Li Ge
Director

Mr. Zhao Guo Wei
Director

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

STATEMENT OF FINANCIAL POSITION

As at 31 December 2012

	Notes	2012 HK$'000	2011 HK$'000
Non-current asset			
Interests in subsidiaries	22	**–**	–
Current assets			
Amounts due from subsidiaries	22	**21,561**	112,720
Prepayments, deposits and other receivables	26	**285**	881
Cash and bank balances	27	**35**	1,991
		21,881	115,592
Less: Current liabilities			
Other payables and accruals	31	**6,465**	1,421
Amount due to a director	33	**7,000**	–
Convertible notes	36	**34,981**	–
		48,446	1,421
Net current (liabilities)/assets		**(26,565)**	114,171
Net (liabilities)/assets		**(26,565)**	114,171
Capital and reserves			
Share capital	37	**3,517**	3,517
Reserves	39(b)	**(30,082)**	110,654
Total equity		**(26,565)**	114,171

Approved by the Board of Directors on 20 March 2013 and signed on its behalf by:

Mr. Li Ge
Director

Mr. Zhao Guo Wei
Director

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2012

	Attributable to owners of the Company											
	Share capital	Share premium	Contributed surplus	Share options reserve	Convertible notes reserve	Exchange reserve	Statutory reserves	Accumulated losses	Discontinued operations	Subtotal	Non-controlling interests	Total equity
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
At 1 January 2011	3,489	216,838	36,000	3,174	–	35,631	43,500	(32,562)	–	306,070	–	306,070
Loss for the year	–	–	–	–	–	–	–	(52,520)	–	(52,520)	–	(52,520)
Other comprehensive income for the year	–	–	–	–	–	8,956	–	–	–	8,956	–	8,956
Total comprehensive (loss)/income for the year	–	–	–	–	–	8,956	–	(52,520)	–	(43,564)	–	(43,564)
Acquisition of a subsidiary	–	–	–	–	–	–	–	–	–	–	(8)	(8)
Lapse of share option	–	–	–	(690)	–	–	–	690	–	–	–	–
Issue of shares upon exercise of share options	28	2,696	–	(828)	–	–	–	–	–	1,896	–	1,896
At 31 December 2011 and 1 January 2012	3,517	219,534	36,000	1,656	–	44,587	43,500	(84,392)	–	264,402	(8)	264,394
Loss for the year	–	–	–	–	–	–	–	(80,210)	–	(80,210)	(16,023)	(96,233)
Other comprehensive income for the year	–	–	–	–	–	1,296	–	–	–	1,296	49	1,345
Total comprehensive (loss)/income for the year	–	–	–	–	–	1,296	–	(80,210)	–	(78,914)	(15,974)	(94,888)
Additional non-controlling interests arising on disposal of interest in a subsidiary (Note 41)	–	–	–	–	–	–	–	–	–	–	53,177	53,177
Difference arising on disposal of interest in a subsidiary (Note 41)	–	–	–	–	–	–	–	(8,177)	–	(8,177)	–	(8,177)
Recognition of the equity component of convertible notes (Note 36)	–	–	–	–	429	–	–	–	–	429	–	429
Expiry of share option	–	–	–	(1,656)	–	–	–	1,656	–	–	–	–
Transfer to discontinued operations	–	–	–	–	–	(45,883)	(43,500)	–	89,383	–	–	–
At 31 December 2012	**3,517**	**219,534**	**36,000**	**–**	**429**	**–**	**–**	**(171,123)**	**89,383**	**177,740**	**37,195**	**214,935**

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

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2012

	Notes	2012 HK$'000	2011 HK$'000
Cash flows from operating activities			
Loss before taxation			
Continuing operations		**(28,278)**	(8,095)
Discontinued operations		**(67,955)**	(51,082)
		(96,233)	(59,177)
Adjustments for:			
Discount on consideration payable for acquisition of subsidiaries	8	**(8,000)**	–
Interest income	7	**(188)**	(37)
Depreciation	18	**13,716**	18,377
Amortisation of intangible assets	20	**–**	2,405
Amortisation of long-term prepayments	21	**11,255**	7,524
Impairment loss of assets classified as held for sale	29	**–**	26,869
Impairment loss of trade receivables	25	**6,406**	2,187
Impairment loss of prepayments and other receivables	26	**4,144**	8,728
Impairment loss of intangible assets	20	**1,013**	–
Reversal of impairment loss of trade receivables	25	**(777)**	(1,222)
Reversal of impairment loss of prepayments and other receivables	26	**(376)**	(3,786)
Finance costs	10	**8,000**	4
Operating cash flow before working capital changes		**(61,040)**	1,872
Decrease/(increase)in inventories		**40,200**	(47,409)
(Increase)/decrease in trade receivables		**(9,003)**	3,372
(Increase)/decrease in prepayments, deposits and other receivables		**(2,378)**	37,629
Increase in pledged bank deposits		**(26,842)**	(1,390)
(Decrease)/increase in trade payables		**(12,068)**	12,114
Increase in other payables and accruals		**9,873**	2,812
(Decrease)/increase in receipts in advance		**(21,574)**	24,014
Increase in amount due to a director		**10,993**	48
Decrease in amount due to a shareholder		**(1,000)**	(5,000)
Cash (used in)/generated from operations		**(72,839)**	28,062
Interest element on finance lease rental payments		**(2)**	(4)
Net cash (outflow)/inflow from operating activities		**(72,841)**	28,058

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2012

	Notes	2012 HK$'000	2011 HK$'000
Cash flows from investing activities			
Interest received		188	37
Purchase of property, plant and equipment		(4,710)	(1,166)
Purchase of intangible assets		(6,000)	–
Proceeds from disposal of assets classified as held for sale		24,053	–
Net cash outflow from acquisition of subsidiaries	40	(44,996)	(1,000)
Purchase of financial assets at fair value through profit or loss		(3,129)	(3,723)
Proceeds from disposal of financial assets at fair value through profit or loss		3,743	–
Net cash (outflow)/inflow from investing activities		(30,851)	(5,852)
Cash flows from financing activities			
Interest paid		(7,588)	–
Proceeds from issue of shares		–	1,896
Proceeds from issue of convertible notes		35,000	–
Proceeds on disposal of partial interest in a subsidiary	41	45,000	–
Capital element of finance lease rental payments		(28)	(15)
Net cash inflow from financing activities		72,384	1,881
Net (decrease)/increase in cash and cash equivalents		(31,308)	24,087
Cash and cash equivalents at the beginning of the year		50,416	25,527
Effects of exchange rate changes on the balance of cash held in foreign currencies		150	802
Cash and cash equivalents at the end of the year		19,258	50,416
Analysis of balances of cash and cash equivalents			
Cash and bank balances	27	19,258	50,416

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

1. CORPORATE INFORMATION

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

The principal activity of the Company is investment holding. During the year, the principal activities of the Group are the manufacturing and sales of household products and provision of funeral services and sale of funeral related products.

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

The Hong Kong Institute of Certified Public Accountants ("HKICPA") has issued certain new and revised standards, amendments and interpretations that are mandatory for accounting periods beginning on or after 1 January 2012. The new and revised standards, amendments and interpretations adopted in the current year are referred to as new and revised HKFRSs. A summary of the effect on initial adoption of these new and revised HKFRSs is set out below.

HKFRS 1 (Amendments)	First-time Adoption of Hong Kong Financial Reporting Standards – Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters
HKFRS 7 (Amendments)	Financial Instruments: Disclosures – Transfers of Financial Assets
HKAS 12 (Amendments)	Deferred Tax: Recovery of Underlying Assets

The directors anticipate that the application of these new and revised HKFRSs has no material impact on the results and the financial position of the Group.

The Group has not applied in advance the following new and revised HKFRSs that have been issued but are not yet effective.

HKFRS 9	Financial Instruments[4]
HKFRS 10	Consolidated Financial Statements[2]
HKFRS 11	Joint Arrangements[2]
HKFRS 12	Disclosure of Interests in Other Entities[2]
HKFRS 13	Fair Value Measurement[2]
HKFRS 7 (Amendments)	Disclosures – Offsetting Financial Assets and Financial Liabilities[2]
HKFRS 9 and HKFRS 7 (Amendments)	Mandatory Effective Date of HKFRS 9 and Transition Disclosures[4]
HKFRS 10, HKFRS 11 and HKFRS 12 (Amendments)	Consolidated Financial Statements, Joint Arrangements, Disclosure of Interests in Other Entities: Transition Guidance[2]
HKFRS 10, HKFRS 12 and HKAS 27 (Amendments)	Investment Entities[3]
HKAS 19 (as revised in 2011)	Employee Benefits[2]
HKAS 27 (as revised in 2011)	Separate Financial Statements[2]
HKAS 28 (as revised in 2011)	Investments in Associates and Joint Ventures[2]
HKAS 1 (Amendments)	Presentation of Items of Other Comprehensive Income[1]
HKAS 32 (Amendments)	Offsetting Financial Assets and Financial Liabilities[3]
HKFRSs (Amendments)	Annual Improvements to HKFRSs 2009-2011 Cycle[2]
HK(IFRIC)-Int 20	Stripping Costs in the Production Phase of a Surface Mine[2]

[1] Effective for annual periods beginning on or after 1 July 2012
[2] Effective for annual periods beginning on or after 1 January 2013
[3] Effective for annual periods beginning on or after 1 January 2014
[4] Effective for annual periods beginning on or after 1 January 2015

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

HKFRS 9 Financial Instruments

HKFRS 9 issued in 2009 introduced new requirements for the classification and measurement of financial assets. HKFRS 9 was amended in 2010 to include requirements for the classification and measurement of financial liabilities and for derecognition.

Key requirements of HKFRS 9 are described below:

- All recognised financial assets that are within the scope of HKAS 39 to be subsequently measured at amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent reporting periods. All other debt investments and equity investments are measured at their fair values at the end of subsequent accounting periods. In addition, under HKFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income, with only dividend income generally recognised in profit or loss.

- With regard to the measurement of financial liabilities designated as at fair value through profit or loss, HKFRS 9 requires that the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value of financial liabilities attributable to changes in the financial liabilities' credit risk are not subsequently reclassified to profit or loss. Previously, under HKAS 39, the entire amount of the change in the fair value of the financial liability designated as fair value through profit or loss was presented in profit or loss.

HKFRS 9 is effective for annual periods beginning on or after 1 January 2015, with earlier application permitted.

The directors anticipate that the adoption of HKFRS 9 in the future may have a significant impact on the amounts reported in respect of the Group's financial assets and financial liabilities (e.g. the Group's available-for-sale investments may have to be measured at fair value at the end of subsequent reporting periods, with changes in the fair value being recognised in profit or loss). Regarding the Group's financial assets, it is not practicable to provide a reasonable estimate of that effect until a detailed review has been completed.

New and revised standards on consolidation, joint arrangements, associates and disclosures

In June 2011, a package of five standards on consolidation, joint arrangements, associates and disclosures was issued, including HKFRS 10, HKFRS 11, HKFRS 12, HKAS 27 (as revised in 2011) and HKAS 28 (as revised in 2011).

Key requirements of these five standards are described below.

HKFRS 10 replaces the parts of HKAS 27 that deal with consolidated financial statements. HK (SIC)-Int 12 will be withdrawn upon the effective date of HKFRS 10. Under HKFRS 10, there is only one basis for consolidation, that is, control. In addition, HKFRS 10 includes a new definition of control that contains three elements: (a) power over an investee, (b) exposure, or rights, to variable returns from its involvement with the investee, and (c) the ability to use its power over the investee to affect the amount of the investor's returns. Extensive guidance has been added in HKFRS 10 to deal with complex scenarios.

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

New and revised standards on consolidation, joint arrangements, associates and disclosures *(Continued)*

HKFRS 11 replaces HKAS 31. HKFRS 11 deals with how a joint arrangement of which two or more parties have joint control should be classified. HK (SIC) – Int 13 will be withdrawn upon the effective date of HKFRS 11. Under HKFRS 11, joint arrangements are classified as joint operations or joint ventures, depending on the rights and obligations of the parties to the arrangements. In contrast, under HKAS 31, there are three types of joint arrangements: jointly controlled entities, jointly controlled assets and jointly controlled operations. In addition, joint ventures under HKFRS 11 are required to be accounted for using the equity method of accounting, whereas jointly controlled entities under HKAS 31 can be accounted for using the equity method of accounting or proportionate consolidation.

HKFRS 12 is a disclosure standard and is applicable to entities that have interests in subsidiaries, joint arrangements, associates and/or unconsolidated structured entities. In general, the disclosure requirements in HKFRS 12 are more extensive than those in the current standards.

In July 2012, the amendments to HKFRS 10, HKFRS 11 and HKFRS 12 were issued to clarify certain transitional guidance on the application of these five HKFRSs for the first time.

These five standards, together with the amendments relating to the transitional guidance, are effective for annual periods beginning on or after 1 January 2013 with earlier application permitted provided all of these standards are applied at the same time.

The directors anticipate that the application of these five standards will have no impact to the Group's consolidated financial statements.

HKFRS 13 Fair Value Measurement

HKFRS 13 establishes a single source of guidance for fair value measurements and disclosures about fair value measurements. The standard defines fair value, establishes a framework for measuring fair value, and requires disclosures about fair value measurements. The scope of HKFRS 13 is broad; it applies to both financial instrument items and non-financial instrument items for which other HKFRSs require or permit fair value measurements and disclosures about fair value measurements, except in specified circumstances. In general, the disclosure requirements in HKFRS 13 are more extensive than those in the current standards. For example, quantitative and qualitative disclosures based on the three-level fair value hierarchy currently required for financial instruments only under HKFRS 7 will be extended by HKFRS 13 to cover all assets and liabilities within its scope.

HKFRS 13 is effective for annual periods beginning on or after 1 January 2013, with earlier application permitted.

The directors anticipate that the application of the new standard may affect certain amounts reported in the consolidated financial statements and result in more extensive disclosures in the consolidated financial statements.

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

HKFRS 7 and HKAS 32 (Amendments) Offsetting Financial Assets and Financial Liabilities and the related disclosures

The amendments to HKAS 32 clarify existing application issues relating to the offset of financial assets and financial liabilities requirements. Specifically, the amendments clarify the meaning of "currently has a legally enforceable right of set-off" and "simultaneous realisation and settlement".

The amendments to HKFRS 7 require entities to disclose information about rights of offset and related arrangements (such as collateral posting requirements) for financial instruments under an enforceable master netting agreement or similar arrangement.

The amendments to HKFRS 7 are effective for annual periods beginning on or after 1 January 2013 and interim periods within those annual periods. The disclosures should be provided retrospectively for all comparative periods. However, the amendments to HKAS 32 are not effective until annual periods beginning on or after 1 January 2014, with retrospective application required.

The directors anticipate that the application of these amendments to HKAS 32 and HKFRS 7 may result in more disclosures being made with regard to offsetting financial assets and financial liabilities in the future.

HKAS 1 (Amendments) Presentation of Items of Other Comprehensive Income

The amendments to HKAS 1 introduce new terminology for the statement of comprehensive income and income statement. Under the amendments to HKAS 1, a statement of comprehensive income is renamed as a statement of profit or loss and other comprehensive income and an income statement is renamed as a statement of profit or loss. The amendments to HKAS 1 retain the option to present profit or loss and other comprehensive income in either a single statement or in two separate but consecutive statements. However, the amendments to HKAS 1 require items of other comprehensive income to be grouped into two categories in the other comprehensive income section: (a) items that will not be reclassified subsequently to profit or loss and (b) items that may be reclassified subsequently to profit or loss when specific conditions are met. Income tax on items of other comprehensive income is required to be allocated on the same basis. The amendments do not change the option to present items of other comprehensive income either before tax or net of tax.

The amendments to HKAS 1 are effective for annual periods beginning on or after 1 July 2012. The presentation of items of other comprehensive income will be modified accordingly when the amendments are applied in the future accounting periods.

Annual Improvements to HKFRSs 2009 – 2011 Cycle issued in June 2012

The Annual Improvements to HKFRSs 2009 – 2011 Cycle include a number of amendments to various HKFRSs. The amendments are effective for annual periods beginning on or after 1 January 2013. Amendments to HKFRSs include:

- amendments to HKAS 1 Presentation of Financial Statements;
- amendments to HKAS 16 Property, Plant and Equipment; and
- amendments to HKAS 32 Financial Instruments: Presentation.

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

Annual Improvements to HKFRSs 2009 – 2011 Cycle issued in June 2012 *(Continued)*

HKAS 1 (Amendments)

HKAS 1 requires an entity that changes accounting policies retrospectively, or makes a retrospective restatement or reclassification to present a statement of financial position as at the beginning of the preceding period (third statement of financial position). The amendments to HKAS 1 clarify that an entity is required to present a third statement of financial position only when the retrospective application, restatement or reclassification has a material effect on the information in the third statement of financial position and that related notes are not required to accompany the third statement of financial position.

HKAS 16 (Amendments)

The amendments to HKAS 16 clarify that spare parts, stand-by equipment and servicing equipment should be classified as property, plant and equipment when they meet the definition of property, plant and equipment in HKAS 16 and as inventory otherwise. The Directors do not anticipate that the amendments to HKAS 16 will have a significant effect on the Group's consolidated financial statements.

HKAS 32 (Amendments)

The amendments to HKAS 32 clarify that income tax on distributions to holders of an equity instrument and transaction costs of an equity transaction should be accounted for in accordance with HKAS 12 *Income Taxes*. The Directors anticipate that the amendments to HKAS 32 will have no effect on the Group's consolidated financial statements.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

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

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

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

Basis of preparation

The measurement basis used in the preparation of the consolidated financial statements is historical cost convention except for certain financial instruments, which are measured at revalued amounts or fair values, as explained in the accounting policies set out below.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities (including special purpose entities) controlled by the Company (its subsidiaries). Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

Income and expenses of subsidiaries acquired or disposed of during the year are included in the consolidated statement of comprehensive income from the effective date of acquisition and up to the effective date of disposal, as appropriate. Total comprehensive income of subsidiaries is attributed to the owners of the Company and to the non-controlling interests even if the results in the non-controlling interests having a deficit balance.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by other members of the Group.

All intra-group transactions, balances, income and expenses are eliminated in full on consolidation.

Changes in the Group's ownership interests in existing subsidiaries

Changes in the Group's ownership interests in subsidiaries that do not result in the Group losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the Group's interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to owners of the Company.

When the Group loses control of a subsidiary, it (i) derecognises the assets (including any goodwill) and liabilities of the subsdiary at their carrying amounts at the date when control is lost, (ii) derecognises the carrying amount of any non-controlling interest in the former subsidiary at the date when control is lost (including any components of other comprehensive income attributable to them), and (iii) recognises the aggregate of the fair value of the consideration received and the fair value of any retained interest, with any resulting difference being recognised as a gain or loss in profit or loss attributable to the Group. When assets of the subsidiary are carried at revalued amounts or fair values and the related cumulative gain or loss has been recognised in other comprehensive income and accumulated in equity, the amounts previously recognised in other comprehensive income and accumulated in equity are accounted for as if the Company had directly disposed of the related assets (i.e. reclassified to profit or loss or transferred directly to retained earnings as specified by applicable HKFRSs). The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under HKAS 39 *Financial Instruments: Recognition and Measurement* or, when applicable, the cost on initial recognition of an investment in an associate or a jointly controlled entity.

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

Subsidiaries

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

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

Business combinations

Acquisitions of businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred by the Group, liabilities incurred by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. Acquisition-related costs are generally recognised in profit or loss as incurred.

At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognised at their fair value at the acquisition date, except that:

- deferred tax assets or liabilities and liabilities or assets related to employee benefit arrangements are recognised and measured in accordance with HKAS 12 *Income Taxes* and HKAS 19 *Employee Benefits* respectively;

- liabilities or equity instruments related to share-based payment transactions of the acquiree or the replacement of an acquiree's share-based payment transactions with share-based payment transactions of the Group are measured in accordance with HKFRS 2 Share-based *Payment* at the acquisition date; and

- assets (or disposal groups) that are classified as held for sale in accordance with HKFRS 5 *Non-current Assets Held for Sale and Discontinued Operations* are measured in accordance with that standard.

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed. If, after assessment, the net of the acquisition-date amounts of the identifiable assets acquired and liabilities assumed exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held interest in the acquiree (if any), the excess is recognised immediately in profit or loss as a bargain purchase gain.

Non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation may be initially measured either at fair value or at the non-controlling interests' proportionate share of the recognised amounts of the acquiree's identifiable net assets. The choice of measurement basis is made on a transaction-by-transaction basis. Other types of non-controlling interests are measured at their fair value or another measurement basis required by another standard.

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

Business combinations *(Continued)*

When the consideration transferred by the Group in a business combination includes assets or liabilities resulting from a contingent consideration arrangement, the contingent consideration is measured at its acquisition-date fair value and considered as part of the consideration transferred in a business combination. Changes in the fair value of the contingent consideration that qualify as measurement period adjustments are adjusted retrospectively, with the corresponding adjustments being made against goodwill or gain on bargain purchase. Measurement period adjustments are adjustments that arise from additional information obtained during the measurement period about facts and circumstances that existed as of the acquisition date. Measurement period does not exceed one year from the acquisition date.

The subsequent accounting for changes in the fair value of the contingent consideration that do not qualify as measurement period adjustments depends on how the contingent consideration is classified. Contingent consideration that is classified as equity is not remeasured at subsequent reporting dates and its subsequent settlement is accounted for within equity. Contingent consideration that is classified as an asset or a liability is remeasured at subsequent reporting dates in accordance with HKAS 39, or HKAS 37 *Provisions, Contingent Liabilities and Contingent Assets*, as appropriate, with the corresponding gain or loss being recognised in profit or loss.

When a business combination is achieved in stages, the Group's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date (i.e. the date when the Group obtains control), and the resulting gain or loss, if any, is recognised in profit or loss. Amounts arising from interests in the acquiree prior to the acquisition date that have previously been recognised in other comprehensive income are reclassified to profit or loss where such treatment would be appropriate if that interest were disposed of.

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Group reports provisional amounts for the items for which the accounting is incomplete. Those provisional amounts are adjusted during the measurement period (see above), or additional assets or liabilities are recognised, to reflect new information obtained about facts and circumstances that existed as of the acquisition date that, if known, would have affected the amounts recognised as of that date.

The policy described above is applied to all business combinations that take place on or after 1 January 2010.

Intangible assets

Intangible assets acquired separately

Intangible assets with finite useful lives that are acquired separately carried at cost less accumulated amortisation and accumulated impairment losses. Amortisation is recognised on a straight-line basis over their estimated useful lives. The estimated useful life and amortisation method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis.

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

Intangible assets *(Continued)*

Intangible assets acquired in a business combination

Intangible assets that are acquired in a business combination are recognised separately from goodwill and are initially recognised at their fair value at the acquisition date (which is regarded as their costs).

Subsequent to initial recognition, intangible assets acquired in a business combination are reported at cost less accumulated amortisation and accumulated impairment losses, on the same basis as intangible assets that are acquired separately.

Goodwill

Goodwill arising on an acquisition of a business is carried at cost less accumulated impairment losses, if any, and is presented separately in the consolidated statement of financial position.

For the purposes of impairment testing, goodwill is allocated to each of the Group's cash-generating units (or groups of cash-generating units) that is expected to benefit from the synergies of the combination.

A cash-generating unit to which goodwill has been allocated is tested for impairment annually, or more frequently when there is indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit, and then to the other assets of the unit on a pro rata basis based on the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognised directly in profit or loss in the consolidated statement of comprehensive income. An impairment loss recognised for goodwill is not reversed in subsequent periods.

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

Impairment of tangible and intangible assets

At the end of each reporting period, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any. Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment at least annually, and whenever there is an indication that the asset may be impaired.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or a cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or the cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss.

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

Impairment of tangible and intangible assets *(Continued)*

Where an impairment loss subsequently reverses, the carrying amount of the asset (or a cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or a cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss.

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

Related party transactions

A related party is a person or entity that is related to the Group.

(a) A person or a close member of that person's family is related to the Group if that person:

- (i) has control or joint control over the Group;
- (ii) has significant influence over the Group; or
- (iii) is a member of the key management personnel of the Group or of a parent of the Group.

(b) An entity is related to the Group if any of the following conditions applies:

- (i) the entity and the Group are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).
- (ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).
- (iii) Both entities are joint ventures of the same third party.
- (iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.
- (v) The entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group. If the Group is itself such a plan, the sponsoring employers are also related to the Group.
- (vi) The entity is controlled or jointly controlled by a person identified in (a).
- (vii) A person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

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

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

Property, plant and equipment and depreciation

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

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

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

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

Residual values, useful lives and depreciation method are reviewed, and adjusted if appropriate, at the end of each reporting period.

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

Leases

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

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

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

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

Financial instruments

Financial assets and financial liabilities are recognised when a group entity becomes a party to the contractual provisions of the instrument.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

Financial assets

Financial assets are classified into the following specified categories: financial assets "at fair value through profit or loss" (FVTPL), "held-to-maturity" investments, "available-for-sale" (AFS) financial assets and "loans and receivables". The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a debt instrument and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the debt instrument, or, where appropriate, a shorter period to the net carrying amount on initial recognition.

Income is recognised on an effective interest basis for debt instruments other than those financial assets classified as at FVTPL.

Financial assets at FVTPL

Financial assets are classified as at FVTPL when the financial asset is either held for trading or it is designated as at FVTPL.

A financial asset is classified as held for trading if:

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

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

FINANCIAL INSTRUMENTS *(Continued)*

Financial assets *(Continued)*

Financial assets at FVTPL (Continued)

A financial asset other than a financial asset held for trading may be designated as at FVTPL upon initial recognition if:

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

Financial assets at FVTPL are stated at fair value, with any gains or losses arising on remeasurement recognised in profit or loss. The net gain or loss recognised in profit or loss incorporates any dividend or interest earned on the financial asset and is included in the consolidated statement of comprehensive income.

Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturity date that the Group has the positive intention and ability to hold to maturity. Subsequent to initial recognition, held-to-maturity investments are measured at amortised cost using the effective interest method less any impairment.

Available-for-sale financial assets (AFS financial assets)

AFS financial assets are non-derivatives that are either designated as available-for-sale or are not classified as financial assets at FVTPL, loans and receivables or held-to-maturity investments.

AFS financial assets are measured at fair value at the end of the reporting period. Changes in fair value are recognised in other comprehensive income and accumulated under the heading of investments revaluation reserve. Where the financial asset is disposed of or is determined to be impaired, the cumulative gain or loss previously accumulated in the investments revaluation reserve is reclassified to profit or loss.

For AFS equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured and derivatives that are linked to and must be settled by delivery of such unquoted equity investments that are measured at cost less any identified impairment losses at the end of the reporting period.

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

FINANCIAL INSTRUMENTS *(Continued)*

Financial assets *(Continued)*

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables (including trade and other receivables, pledged bank deposits, bank balances and cash) are measured at amortised cost using the effective interest method, less any impairment.

Interest income is recognised by applying the effective interest rate, except for short-term receivables when the recognition of interest would be immaterial.

Impairment of financial assets

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at the end of the reporting period. Financial assets are considered to be impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been affected.

For AFS equity investments, a significant or prolonged decline in the fair value of the security below its cost is considered to be objective evidence of impairment.

For all other financial assets, objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- breach of contract, such as default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation; or
- the disappearance of an active market for that financial asset because of financial difficulties.

For certain categories of financial asset, such as trade receivables, assets that are assessed not to be impaired individually are, in addition, assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period of 30-180 days, as well as observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets carried at amortised cost, the amount of the impairment loss recognised is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate.

For financial assets carried at cost, the amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment loss will not be reversed in subsequent periods.

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

Financial instruments *(Continued)*

Financial assets *(Continued)*

Impairment of financial assets (Continued)

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss.

For financial assets measured at amortised cost, if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

For financial assets carried at cost, the amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment loss will not be reversed in subsequent periods.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss.

When an AFS financial asset is considered to be impaired, cumulative gains or losses previously recognised in other comprehensive income are reclassified to profit or loss in the period.

For financial assets measured at amortised cost, if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

In respect of AFS equity securities, impairment losses previously recognised in profit or loss are not reversed through profit or loss. Any increase in fair value subsequent to an impairment loss is recognised in other comprehensive income and accumulated under the heading of investments revaluation reserve. In respect of AFS debt securities, impairment losses are subsequently reversed through profit or loss if an increase in the fair value of the investment can be objectively related to an event occurring after the recognition of the impairment loss.

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

Financial instruments *(Continued)*

Financial liabilities and equity instruments

Debt and equity instruments issued by a group entity are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Group are recognised at the proceeds received, net of direct issue costs.

Repurchase of the Company's own equity instruments is recognised and deducted directly in equity. No gain or loss is recognised in profit or loss on the purchase, sale, issue or cancellation of the Company's own equity instruments.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial liability, or, where appropriate, a shorter period to the net carrying amount on initial recognition.

Interest expense is recognised on an effective interest basis other than financial liabilities classified as at FVTPL.

Financial liabilities at FVTPL

Financial liabilities are classified as at FVTPL when the financial liability is either held for trading or it is designated as at FVTPL on initial recognition.

A financial liability is classified as held for trading if:

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

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

Financial instruments *(Continued)*

Financial liabilities and equity instruments *(Continued)*

Financial liabilities at FVTPL (Continued)

A financial liability other than a financial liability held for trading may be designated as at FVTPL upon initial recognition if:

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

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

- it forms part of a contract containing one or more embedded derivatives, and HKAS 39 *Financial Instruments: Recognition and Measurement* permits the entire combined contract (asset or liability) to be designated as at FVTPL.

Financial liabilities at FVTPL are stated at fair value, with any gains or losses arising on remeasurement recognised in profit or loss. The net gain or loss recognised in profit or loss incorporates any interest paid on the financial liability and is included in the consolidated statement of comprehensive income.

Convertible notes

The component parts of compound instruments (convertible notes) issued by the Company are classified separately as financial liabilities and equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument. Conversion option that will be settled by the exchange of a fixed amount of cash or another financial asset for a fixed number of the Company's own equity instruments is an equity instrument.

At the date of issue, the fair value of the liability component is estimated using the prevailing market interest rate for similar non-convertible instruments. This amount is recorded as a liability on an amortised cost basis using the effective interest method until extinguished upon conversion or at the instrument's maturity date.

The conversion option classified as equity is determined by deducting the amount of the liability component from the fair value of the compound instrument as a whole. This is recognised and included in equity, net of income tax effects, and is not subsequently remeasured. In addition, the conversion option classified as equity will remain in equity until the conversion option is exercised, in which case, the balance recognised in equity will be transferred to share premium. Where the conversion option remains unexercised at the maturity date of the convertible note, the balance recognised in equity will be transferred to retained profits. No gain or loss is recognised in profit or loss upon conversion or expiration of the conversion option.

Transaction costs that relate to the issue of the convertible notes are allocated to the liability and equity components in proportion to the allocation of the gross proceeds. Transaction costs relating to the equity component are recognised directly in equity. Transaction costs relating to the liability component are included in the carrying amount of the liability component and are amortised over the lives of the convertible notes using the effective interest method.

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

Financial instruments *(Continued)*

Financial liabilities and equity instruments *(Continued)*

Other financial liabilities

Other financial liabilities (including trade payables, other payables and accruals, amount due to a director, amount due to a shareholder and obligation under finance lease) are subsequently measured at amortised cost using the effective interest method.

Derecognition

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

On derecognition of a financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised in other comprehensive income and accumulated in equity is recognised in profit or loss.

On derecognition of a financial asset other than in its entirety (e.g. when the Group retains an option to repurchase part of a transferred asset or retains a residual interest that does not result in the retention of substantially all the risks and rewards of ownership and the Group retains control), the Group allocates the previous carrying amount of the financial asset between the part it continues to recognise under continuing involvement, and the part it no longer recognises on the basis of the relative fair values of those parts on the date of the transfer. The difference between the carrying amount allocated to the part that is no longer recognised and the sum of the consideration received for the part no longer recognised and any cumulative gain or loss allocated to it that had been recognised in other comprehensive income is recognised in profit or loss. A cumulative gain or loss that had been recognised in other comprehensive income is allocated between the part that continues to be recognised and the part that is no longer recognised on the basis of the relative fair values of those parts.

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or they expire. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

Inventories

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

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

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

Cash and cash equivalents

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

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

Provisions and contingent liabilities

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

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

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

Income tax

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

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

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

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

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

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

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

Income tax *(Continued)*

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

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

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

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

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

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

Revenue recognition

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

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

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

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

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

Employee benefits

Pension schemes

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

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

Foreign currencies

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

The functional currencies of certain overseas subsidiaries are currencies other than the Hong Kong dollar. At the end of the reporting period, the assets and liabilities of these entities are translated into the presentation currency of the Company at the exchange rates ruling at the end of the reporting period, and their statement of comprehensive incomes are translated into Hong Kong dollars at the weighted average exchange rates for the year. Exchange differences arising are recognised in the exchange reserve.

Goodwill and fair value adjustments on identifiable assets acquired arising on an acquisition of a foreign operation are treated as assets and liabilities of that foreign operation and translated at the rate of exchange prevailing at the end of the reporting period. Exchange differences arising are recognised in the exchange reserve.

Borrowing costs

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

Segment reporting

Operating segments and the amounts of each segment item reported in the consolidated financial statements are identified from the financial information provided regularly to the Group's top management for the purposes of allocating resources to and assessing the performance of the Group's various lines of business.

Individually material operating segments are not aggregated for financial reporting purposes unless the segments have similar economic characteristics and are similar in respect of the nature of business activities.

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

Segment reporting *(Continued)*

Segment revenue, expenses, results and assets include items directly attributable to a segment as well as those that can be allocated on a reasonable basis to that segment, but exclude exceptional items. Segment capital expenditure is the total cost incurred during the year to acquire segment assets (both tangible and intangible) that are expected to be used for more than one year. Corporate portions of expenses and assets mainly comprise corporate administrative and financing expenses and corporate financial assets respectively.

4. SIGNIFICANT ACCOUNTING JUDGMENTS AND ESTIMATES

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

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

(A) Income tax

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

(B) Impairment of property, plant and equipment

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

(C) Impairment of trade receivables

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

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

(D) Impairment of intangible assets

The Group tests annually whether intangible assets have suffered any impairment in accordance with the accounting policy stated above. The recoverable amounts of intangible assets have been determined based on discounted cash flow method (Note 20).

The carrying amount of intangible assets as at 31 December 2012 was approximately HK$85,996,000 (2011: HK$1,013,000).

(E) Net realisable value of inventories

Net realisable value of inventories is the estimated selling price in the ordinary course of business, less estimated costs of completion and selling expenses. These estimates are based on the current market condition and the historical experience and selling goods of similar nature. It could change significant as a result of change in market condition. Management reassess the estimations at the end of the reporting period.

5. FINANCIAL INSTRUMENTS AND CAPITAL RISK MANAGEMENT

(A) Categories of financial instruments

	The Group	
	2012	2011
	HK$'000	HK$'000
Financial assets		
Loans and receivables (including cash and cash equivalents)	**33,907**	94,022
Financial assets at fair value through profit or loss	**3,129**	3,723
	37,036	97,745
Financial liabilities		
Measured at amortised cost	**85,466**	59,702

	The Company	
	2012	2011
	HK$'000	HK$'000
Financial assets		
Loans and receivables (including cash and cash equivalents)	**21,596**	114,711
Financial liabilities		
Measured at amortised cost	**48,446**	1,421

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

(B) Financial risk management objectives and policies

The main risks arising from the Group's and the Company's financial instruments are market risk (including interest rate risk, foreign currency risk and other price risk), credit risk and liquidity risk. The directors of the Company review and agree policies for managing each of these risks and they are summarised below.

Market risk

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

Market risk exposures are measured by sensitivity analysis.

There has been no change to the Group's and the Company's exposure to market risk or the manner in which it manages and measures the risk.

Interest rate risk management

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

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

Foreign currency risk management

The Company is not subject to foreign currency risk as all the transactions of the Company are denominated in Hong Kong dollars.

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

The carrying amounts of the Group's foreign currency denominated monetary assets and monetary liabilities at the end of the reporting period are as follows:–

	Liabilities		Assets	
	2012	2011	**2012**	2011
	HK$'000	HK$'000	**HK$'000**	HK$'000
USD	**–**	1,121	**5,884**	7,493
Euro	**–**	–	**97**	206
RMB	**–**	–	**1**	–

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

(B) FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(Continued)*

Market risk *(Continued)*

Sensitivity analysis on foreign currency risk management

The Group is mainly exposed to the effects of fluctuation in USD and EURO.

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

	2012 **HK$'000**	2011 HK$'000
Impact of USD		
Profit or loss (Note (i))	**(294)**	(319)
Impact of Euro		
Profit or loss (Note (ii))	**(5)**	(10)
Impact of RMB		
Profit or loss	**–**	–

Notes:

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

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

The Group's sensitivity to foreign currency has decreased during the current year mainly due to a decrease in foreign currency denominated cash and bank balances and trade receivables.

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

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

Other price risk

The Group is exposed to equity price risk mainly through its investment. The management manages this exposure by maintaining a portfolio of investments with different risk and return profiles. In addition, the management of the Group would monitor the price risk and will consider hedging the risk exposure should the need arise.

Sensitivity analysis on change in fair value of financial assets at fair value through profit or loss

The sensitivity analyses below have been determined based on the exposure to price risk at the end of the reporting period.

If prices had been 10% higher/lower, post-tax profit for the year ended 31 December 2012 would increase/decrease by approximately HK$312,900 (2011: 372,300). This is mainly due to the changes in fair value of financial assets designated as financial assets at fair value through profit or loss investments.

Credit risk

As at 31 December 2011 and 2012, the Group's and the Company's maximum exposure to credit risk which will cause a financial loss to the Group and the Company due to failure to discharge an obligation by the counterparties is arising from the carrying amount of the respective recognised financial assets as stated in the consolidated statement of financial position.

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

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

Liquidity risk

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

The following tables detail the Group's and the Company's remaining contractual maturity for its non-derivative financial liabilities based on the agreed repayment terms. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group and the Company can be required to pay. The tables include both interest and principal cash flows. To the extent that interest flows are floating rate, the undiscounted amount is derived from interest rate curves at the end of the reporting period.

The amounts included below for variable interest rate instruments for non-derivative financial liabilities are subject to change if changes in variable interest rates different to those estimates of interest rates determined at the end of the reporting period.

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

(B) FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(Continued)*

Liquidity risk *(Continued)*

	Weighted average effective interest rate %	On demand or within 1 year HK$'000	Over 1 year HK$'000	Total undiscounted cash flows HK$'000	Total carrying amount HK$'000
The Group					
2012					
Non-derivative financial liabilities					
Trade payables	–	362	–	362	362
Other payables and accruals	–	35,005	–	35,005	35,005
Amount due to a director	–	11,043	–	11,043	11,043
Amount due to a shareholder	–	4,000	–	4,000	4,000
Obligations under finance lease	2	26	56	82	75
Convertible notes	57	35,000	–	35,000	34,981
		85,436	56	85,492	85,466
The Group					
2011					
Non-derivative financial liabilities					
Trade payables	–	46,009	–	46,009	46,009
Other payables and accruals	–	8,632	–	8,632	8,632
Amount due to a director	–	50	–	50	50
Amount due to a shareholder	–	5,000	–	5,000	5,000
Obligations under finance lease	5	15	–	15	11
		59,706	–	59,706	59,702

	Weighted average effective interest rate %	On demand or within 1 year HK$'000	Over 1 year HK$'000	Total undiscounted cash flows HK$'000	Total carrying amount HK$'000
The Company					
2012					
Non-derivative financial liabilities					
Other payables and accruals	–	6,465	–	6,465	6,465
Amount due to a director	–	7,000	–	7,000	7,000
Convertible notes	57	35,000	–	35,000	34,981
		48,465	–	48,465	48,446
The Company					
2011					
Non-derivative financial liabilities					
Other payables and accruals	–	1,421	–	1,421	1,421

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

(B) FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(Continued)*

Fair value estimation

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

(i) The fair values of financial assets and financial liabilities with standard terms and conditions and traded in active markets are determined with reference to quoted market bid and ask prices respectively.

(ii) The fair values of other financial assets and financial liabilities (excluding derivative instruments) are determined in accordance with generally accepted pricing models (e.g. discounted cash flow analysis using observable and/or unobservable inputs).

(iii) The fair values of derivative instruments are calculated using quoted prices. Where such prices are not available, a discounted cash flow analysis is performed using the applicable yield curve for the duration of the instruments for non-optional derivatives, and option pricing models for optional derivatives.

The Group's financial instruments that are measured subsequent to initial recognition at fair value are grouped into Levels 1 to 3 based on the degree to which the fair value is observable.

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities;

- Level 2 fair value measurements are those derived from inputs other than quote prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and

- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

	31 December 2012			
	Level 1 HK$'000	**Level 2 HK$'000**	**Level 3 HK$'000**	**Total HK$'000**
Financial assets				
Financial assets designated as at fair value through profit or loss	**3,129**	**–**	**–**	**3,129**

	31 December 2011			
	Level 1 HK$'000	Level 2 HK$'000	Level 3 HK$'000	Total HK$'000
Financial assets				
Financial assets designated as at fair value through profit or loss	3,723	–	–	3,723

There are no transfer between Level 1 and 2 in both years.

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

(C) Capital risk management

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

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

Gearing ratio

The directors review the capital structure regularly. As part of this review, the directors consider the cost of capital and the risks associated with each class of capital. This ratio is calculated based on total debt and owners' equity.

The gearing ratio as at the year end is as follows:

	2012 **HK$'000**	2011 HK$'000
Debts #	**39,056**	11
Shareholders' equity	**177,740**	264,402
Gearing ratio	**21.9737%**	0.0042%

Total debts comprise other loan, obligations under finance lease and convertible notes as detailed in Note 31, Note 35 and Note 36.

6. SEGMENT INFORMATION

Information reported to the board of directors of the Company, being the chief operating decision makers, for the purposes of resource allocation and assessment of segment performance focuses on types of goods delivered.

The total net segment income is equivalent to total comprehensive income for the year as shown in the consolidated statement of comprehensive income and the total segment assets and total segment liabilities are equivalent to total assets and total liabilities as shown in the consolidated statement of financial position.

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

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

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

Segment liabilities comprise operating liabilities.

Unallocated items mainly comprise financial and corporate assets and liabilities and tax balances.

6. SEGMENT INFORMATION *(Continued)*

Specifically, the Group's reportable and operating segments under HKFRS 8 are as follow:

- Direct retail of household products (discontinued in 2011)
- Indirect retail of household products and others (plan to dispose in 2012)
- Provision of funeral services and sale of funeral related products

(A) SEGMENT REVENUE AND RESULTS

An analysis of the Group's revenue and results and certain assets, liabilities and expenditure information for the Group's reportable segments is as follows:

	Continuing operations Provision of funeral services and sale of funeral related products	
	2012 **HK$'000**	2011 HK$'000
Segment revenue:		
Sales to external customers	**39,165**	7,644
Segment results	**(17,083)**	(1,022)
Interest income	**181**	28
Unallocated gains	**8,079**	173
Corporate and other unallocated expenses	**(11,455)**	(7,270)
Finance costs	**(8,000)**	(4)
Loss before taxation	**(28,278)**	(8,095)
Taxation	**–**	–
Loss for the year	**(28,278)**	(8,095)

There were no inter-segment sales in the year (2011: Nil). Segment profit represents the profit earned by each segment without allocation of central administration costs including directors' salaries, investment and other income, finance costs and income tax expense. This is the measure reported to chief operating decision makers for the purposes of resource allocation and assessment of segment performance.

6. SEGMENT INFORMATION *(Continued)*

(A) SEGMENT REVENUE AND RESULTS *(Continued)*

	Discontinued operations				Continuing operations			
	Direct retail of household products		Indirect retail of household products		Provision of funeral services and sale of funeral related products		Total	
	2012	2011	**2012**	2011	**2012**	2011	**2012**	2011
	HK$'000	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000
Assets and liabilties								
Segment assets	**–**	–	**249,090**	346,244	**120,415**	1,717	**369,505**	347,961
Corporate and other unallocated assets								
– continued operations							**8,189**	30,302
– discontinued operations							**33**	74
Total assets							**377,727**	378,337
Segment liabilities	**–**	–	**76,656**	107,171	**2,121**	4	**78,777**	107,175
Corporate and other unallocated liabilities							**84,015**	6,768
Total liabilities							**162,792**	113,943

For the purposes of monitoring segment performance and allocating resources between segments:

- all asset are allocated to operating segments other than financial assets at fair value through profit or loss, and other financial assets.

- All liabilities are allocated to operating segments other than other financial liabilities.

6. SEGMENT INFORMATION *(Continued)*

(A) Segment revenue and results *(Continued)*

	Discontinued operations				Continuing operations					
	Direct retail of household products		Indirect retail of household products		Provision of funeral services and sale of funeral related products		Unallocated		Total	
	2012 HK$'000	2011 HK$'000	**2012 HK$'000**	2011 HK$'000	**2012 HK$'000**	2011 HK$'000	**2012 HK$'000**	2011 HK$'000	**2012 HK$'000**	2011 HK$'000
Other segment information										
Depreciation	–	–	13,163	18,369	527	–	26	8	13,716	18,377
Amortisation of intangible assets	–	–	–	2,405	–	–	–	–	–	2,405
Amortisation of long-term prepayments	–	1,307	11,255	6,217	–	–	–	–	11,255	7,524
Capital expenditure	–	–	700	1,157	4,027	–	75	9	4,802	1,166
Impairment loss of intangible assets	–	–	–	–	1,013	–	–	–	1,013	–
Impairment of property, plant and equipment	–	–	–	26,869	–	–	–	–	–	26,869
Provision for impairment loss of trade receivables	–	–	6,406	2,187	–	–	–	–	6,406	2,187
Provision for impairment loss of prepayments and other receivables	–	–	4,144	8,728	–	–	–	–	4,144	8,728

6. SEGMENT INFORMATION *(Continued)*

(B) Geographical Information

During the year, the Group's turnover was mainly made to customers located at Hong Kong, the PRC and the USA. The Group's revenue from external customers and information about its non-current assets by geographical location are detailed bellows.

	Discontinued operations				Continuing operations					
	Direct retail of household products		Indirect retail of household products		Provision of funeral services and sale of funeral related products		Unallocated		Total	
	2012 HK$'000	2011 HK$'000	2012 HK$'000	2011 HK$'000	2012 HK$'000	2011 HK$'000	2012 HK$'000	2011 HK$'000	2012 HK$'000	2011 HK$'000
Sales										
The PRC	–	21,531	193,951	162,025	–	–	–	–	193,951	183,556
USA	–	–	281	294	–	–	–	–	281	294
Hong Kong	–	–	–	–	39,165	7,644	–	–	39,165	7,644
Others	–	–	–	7,120	–	–	–	–	–	7,120
	–	21,531	194,232	169,439	39,165	7,644	–	–	233,397	198,614
Non-current assets										
The PRC	–	–	–	31,000	79,996	–	–	–	79,996	31,000
Hong Kong	–	–	–	–	9,500	–	59	1,013	9,559	1,013
	–	–	–	31,000	89,496	–	59	1,013	89,555	32,013

(C) Other information

Revenue from major products

The Group's revenue from its major products are as follows:

	2012 HK$'000	2011 HK$'000
Indirect retail of household products and others	194,232	169,439
Direct retail of household products	–	21,531
Provision of funeral services and sale of funeral related products	39,165	7,644
	233,397	198,614

6. SEGMENT INFORMATION *(Continued)*

(C) OTHER INFORMATION *(Continued)*

Information about major customers

During the year ended 31 December 2012, no revenue from transactions with a single customer amounted to 10% or more of the Group's revenues arising from provision of funeral services and sale of funeral related products of approximately HK$39,165,000.

During the year ended 31 December 2011, included in revenues arising from provision of funeral services and sale of funeral related products of approximately HK$7,644,000 are revenues of approximately HK$7,500,000 which arose from sales to the Group's largest customer (the provision of funeral services and sale of funeral related products segment). No other single customers contributed 10% or more to the Group's revenue for the year ended 31 December 2011.

7. TURNOVER AND OTHER REVENUE

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

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

	The Group	
	2012	2011
	HK$'000	HK$'000
Turnover:		
Continuing operations		
Provision of funeral services and sale of funeral related products	**39,165**	7,644
Discontinued operations		
Indirect retail of household products and others	**194,232**	169,439
Direct retail of household products	**–**	21,531
	194,232	190,970
	233,397	198,614
Other revenue:		
Continuing operations		
Bank interest income	**181**	28
Sundry income	**79**	173
	260	201
Discontinued operations		
Bank interest income	**7**	9
Sundry income	**–**	439
	7	448
	267	649

8. OTHER NET GAIN AND LOSS

	The Group	
	2012	2011
	HK$'000	HK$'000
Continuing operations		
Discount on consideration payable for acquisition of subsidiaries (Note)	**8,000**	–
Impairmant loss of intangible assets	**(1,013)**	–
	6,987	–

Note: Subsequent to the completion of acquisition of Profit Value Group Limited (Note 40), the vendor entered into in a supplemental agreement with the Group that the vendor offered a discount on consideration payable of HK$8,000,000 for early settlement arrangement.

9. LOSS FOR THE YEAR FROM CONTINUING OPERATIONS

The Group's loss for the year from continuing operations is arrived at after charging:

	2012	2011
	HK$'000	HK$'000
Cost of inventories sold	**766**	50
Auditors' remuneration	**650**	650
Depreciation on owned property, plant and equipment	**535**	8
Depreciation on property, plant and equipment held under finance lease	**18**	–
	553	8
Minimum lease payments under operating leases:		
Funeral Parlour	**37,820**	–
Land and buildings	**831**	214
	38,651	214
Employee benefits expense (excluding directors' remuneration):		
Wages, salaries and other allowances	**7,276**	1,704
Pension scheme contributions	**291**	54
	7,567	1,758

10. FINANCE COSTS

	The Group 2012 HK$'000	2011 HK$'000
Continuing operations		
Interests on obligations under finance lease	**2**	4
Interest on convertible notes	**5,113**	–
Interest on other borrowings wholly repayable within five years	**2,550**	–
Other interest expense	**335**	–
	8,000	4

11. DIRECTORS' AND CHIEF EXECUTIVE'S REMUNERATION

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

	The Group 2012 HK$'000	2011 HK$'000
Fees	**1,476**	1,898
Other emoluments:		
Salaries, allowances and benefits in kind	**205**	211
Pension scheme contributions	**10**	12
	1,691	2,121

During the years ended 31 December 2011 and 2012, none of the directors were granted share options under the share option scheme operated by the Company.

(A) Independent non-executive directors

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

	2012 HK$'000	2011 HK$'000
Mr. Zhang Chun Qiang (appointed on 24 February 2012)	**20**	–
Mr. Yang Dongli (resigned on 4 January 2013)	**24**	24
Mr. Lee Yuen Kwong (resigned on 18 November 2011)	**–**	99
Mr. Liu Qing Chen (re-designated on 18 November 2011)	**108**	13
Mr. Yang Jie (resigned on 24 February 2012)	**4**	24
	156	160

There were no other emoluments payable to the independent non-executive directors during the year (2011: Nil).

11. DIRECTORS' AND CHIEF EXECUTIVE'S REMUNERATION *(Continued)*

(B) Executive directors and non-executive directors

	Fees HK$'000	Salaries, allowances and benefits in kind HK$'000	Pension scheme contributions HK$'000	Total remuneration HK$'000
2012				
Executive directors:				
Mr. Zhao Guo Wei	**120**	**–**	**–**	**120**
Mr. Li Ge	**1,200**	**–**	**–**	**1,200**
Mr. Sun Miguel (appointed on 24 February 2012)	**–**	**205**	**10**	**215**
	1,320	**205**	**10**	**1,535**
2011				
Executive directors:				
Mr. Zhao Guo Wei	120	–	–	120
Mr. Li Ge	1,473	11	2	1,486
Mr. Ma Chun Fung Horace (resigned on 31 October 2011)	–	200	10	210
	1,593	211	12	1,816
Non-executive director:				
Mr. Ng Kwai Wah Sunny (resigned on 16 May 2011)	90	–	–	90
Mr. Liu Qing Chen (appointed on 16 May 2011 re-designated to be independent non-executive director on 18 November 2011)	55	–	–	55
	145	–	–	145

11. DIRECTORS' AND CHIEF EXECUTIVE'S REMUNERATION *(Continued)*

(B) EXECUTIVE DIRECTORS AND NON-EXECUTIVE DIRECTORS *(Continued)*

There was no arrangement under which a director waived or agreed to waive any remuneration during the years ended 31 December 2011 and 2012.

No emoluments were paid by the Group to the directors as an inducement to join or upon joining the Group or as compensation for loss of office (2011: Nil).

During the years ended 31 December 2012 and 2011, the executive director of the Company, Mr. Li Ge, was also the chief executive of the Company.

12. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included one (2011: two) directors, details of whose remuneration are set out in Note 11 above. Details of the remuneration of the remaining four (2011: three) non-director, highest paid employees for the year are as follows:

	The Group	
	2012	2011
	HK$'000	HK$'000
Salaries, allowances and benefits in kind	**1,745**	1,242
Pension scheme contributions	**44**	34
	1,789	1,276

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

	Number of employees	
	2012	2011
Nil to HK$1,000,000	**4**	3

During the years ended 31 December 2011 and 2012, no share options were granted to non-director, highest paid employees in respect of their services to the Group.

No emoluments were paid by the Group to non-director, highest paid employees as an inducement to join or upon joining the Group or as compensation for loss of office (2011: Nil).

13. TAXATION

No provision for Hong Kong profits tax has been made during the year as the Group has no assessable profits arising in Hong Kong (2011: Nil).

Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in places in which the Group operates, based on existing legislation, interpretations and practices in respect thereof (2011: Nil).

13. TAXATION *(Continued)*

	The Group	
	2012	2011
	HK$'000	HK$'000
Continuing operations		
Current taxation – Hong Kong	**–**	–
Current taxation – PRC	**–**	–
Deferred taxation	**–**	–
Tax charge for the year	**–**	–

	The Group	
	2012	2011
	HK$'000	HK$'000
Discontinued operations		
Current taxation – Hong Kong	**–**	–
Current taxation – PRC	**–**	6,657
Deferred taxation	**–**	–
Tax credit for the year	**–**	6,657

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

	2012		2011	
	HK$'000	**%**	HK$'000	%
Loss before taxation				
– Continuing operations	**(28,278)**		(8,095)	
– Discontinued operation	**(67,955)**		(51,082)	
	(96,233)		(59,177)	
National tax on loss before taxation, calculated at the rates applicable to profits in the countries concerned	**(20,714)**	**(21.5)**	(14,131)	(23.8)
Tax concession for a subsidiary operating in the PRC	**–**	**–**	1,365	2.3
Tax effect of expenses not deductible for tax purpose	**7,905**	**8.2**	11,441	19.3
Tax effect of income not taxable for tax purpose	**(5,591)**	**(5.8)**	(1,307)	(2.2)
Tax effect of unrecognised temporary difference	**(33)**	**(0.0)**	(2)	–
Tax loss not recognised	**18,433**	**19.1**	2,634	4.4
Over provision in prior year	**–**	**–**	(6,657)	(11.2)
Tax charge for the year at the Group's effective rate	**–**	**–**	(6,657)	(11.2)

13. TAXATION *(Continued)*

Deferred taxation

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

	The Group		The Company	
	2012	2011	**2012**	2011
	HK$'000	HK$'000	**HK$'000**	HK$'000
Tax losses	**16,543**	17	**17**	17
Deductible temporary differences	**–**	40	**–**	–
	16,543	57	**17**	17

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

14. DISCONTINUED OPERATIONS

Disposal of direct retail of household products operation

On 30 September 2011, a subsidiary of the Group abandoned the operation of direct retail of household products. The disposal of the direct retail of household products operation is consistent with the Group's long-term policy to focus its activities in the provision of funeral services and sale of funeral related products. The rental agreement of an exhibition hall used for the direct retail of household products operation was early terminated on 30 September 2012. Details of the early termination of the rental agreement are disclosed in Note 21.

Disposal of indirect retail of household products and others operation

On 4 February 2013, General Asia Holdings Limited ("General Asia"), a direct wholly-owned subsidiary of the Company, entered into a sale and purchase agreement with an independent third party (the "Purchaser") pursuant to which the Purchaser agreed to acquire and General Asia has agreed to sell the 7,500 ordinary shares (the "Sale Shares") of Trader Group International Limited ("Trader Group") of US$1.00 each, representing 75% of the entire issued share capital of Trader Group, for a total consideration of HK$70,000,000. Upon the completion of the disposal of the Sale Shares (the "Disposal"), Trader Group will cease to be a subsidiary of the Company and the results, assets and liabilities will be deconsolidated from the consolidated accounts of the Company. The Group was actively seeking the buyer during the year ended 31 December 2012. Therefore the indirect retail of household products and other operation were treated as discontinued operation during the year ended 31 December 2012. The net proceeds of the Disposal exceeds the carrying amount of the related net assets and, accordingly, no impairment loss was recognised, neither when the operation was reclassified as held for sale nor at the end of the reporting period. Details of the above transaction were set out in the Company's announcement dated 6 March 2013.

14. DISCONTINUED OPERATIONS *(Continued)*

The results from the discontinued operations which have been included in the consolidated statements of comprehensive income and consolidated statements of cash flows are set out below:

	2012 HK$'000	2011 HK$'000
Loss for the year from discontinued operations		
Turnover	**194,232**	190,970
Cost of sales	**(207,262)**	(164,369)
Other revenue	**7**	448
Other net gain and loss	**(9,399)**	(32,682)
Selling and distribution costs	**(18,062)**	(24,852)
Administrative expenses	**(27,471)**	(20,597)
Loss before taxation	**(67,955)**	(51,082)
Taxation	**–**	6,657
Loss for the year	**(67,955)**	(44,425)
Loss for the year from discontinued operations attributable to:		
Owners of the Company	**(57,845)**	(44,425)
Non-controlling interests	**(10,110)**	–
	(67,955)	(44,425)
Loss for the year from discontinued operations includes the following:		
Depreciation on owned property, plant and equipment	**13,163**	18,369
Auditors' remuneration	**–**	–

	2012 HK$'000	2011 HK$'000
Cash flows from discontinued operations		
Net cash (outflow)/inflow from operating activities	**(34,292)**	1,303
Net cash inflow/(outflow) from investing activities	**23,359**	(1,149)
Net cash inflow from financing activities	**77**	–
Effects of exchange rate changes on the balance of cash held in foreign currencies	**167**	749
Net cash (outflows)/inflows	**(10,689)**	903

15. LOSS ATTRIBUTABLE TO OWNERS OF THE COMPANY

The loss attributable to owners of the Company for the year ended 31 December 2012 included a loss of approximately HK$16,031,000 (2011: loss of HK$4,990,000) which has been dealt with in the consolidated financial statements of the Company (Note 39(b)).

16. DIVIDENDS

No dividend has been declared or proposed by the directors of the Company in respect of the year ended 31 December 2012 (2011: Nil).

17. LOSS PER SHARE ATTRIBUTABLE TO OWNERS OF THE COMPANY

The calculation of basic loss per share amount is based on the loss for the year attributable to owners of the Company, and the weighted average number of ordinary shares in issue during the year.

	2012 HK$'000	2011 HK$'000
Continuing and discontinued operations		
Loss		
Loss attributable to owners of the Company, used in the basic loss per share calculation from continuing and discontinued operations	**(80,210)**	(52,520)
Continuing operations		
Loss		
Loss attributable to owners of the Company, used in the basic loss per share calculation from continuing operations	**(22,365)**	(8,095)
	'000	'000
Number of shares		
Weighted average number of ordinary shares in issue during the year used in the basic loss per share calculation	**1,758,356**	1,754,273

Discontinued operations

Basic and diluted loss per share for the discontinued operations is HK3.29 cents per share (2011: HK2.53 cents per share).

Diluted loss per share for both continuing and discontinued operations for the year ended 31 December 2012 was the same as the basic loss per share. The Company's outstanding share options and convertible notes were not included in the calculation of diluted loss per share because the effect of the Company's outstanding share options and convertible notes were anti-dilutive.

Diluted loss per share for both continuing and discontinued operations for the year ended 31 December 2011 was the same as the basic loss per share. The Company's outstanding share options were not included in the calculation of diluted loss per share because the effect of the Company's outstanding share options was anti-dilutive.

18. PROPERTY, PLANT AND EQUIPMENT

The Group

	Plant and machinery HK$'000	Leasehold improvements HK$'000	Motor vehicles HK$'000	Building HK$'000	Furniture and fixtures HK$'000	Office and computer equipment HK$'000	Total HK$'000
Cost:							
At 1 January 2011	95,361	3,551	197	53,058	5	6,360	158,532
Additions	948	–	–	–	–	218	1,166
Disposals	–	(3,621)	–	–	–	–	(3,621)
Reclassified as held for sale	–	–	–	(54,906)	–	–	(54,906)
Exchange realignment	3,322	122	7	1,848	–	208	5,507
At 31 December 2011 and 1 January 2012	99,631	52	204	–	5	6,786	106,678
Additions	147	3,249	220	–	165	1,021	4,802
Disposals	–	–	–	–	–	(102)	(102)
Reclassified as held for sale	(100,317)	–	(205)	–	–	(6,978)	(107,500)
Exchange realignment	539	–	1	–	–	34	574
At 31 December 2012	–	3,301	220	–	170	761	4,452
Accumulated depreciation and impairment :							
At 1 January 2011	57,084	3,551	98	2,482	5	3,703	66,923
Charge for the year	15,790	–	32	1,125	–	1,430	18,377
Disposals	–	(3,621)	–	–	–	–	(3,621)
Reclassified as held for sale	–	–	–	(3,711)	–	–	(3,711)
Exchange realignment	2,225	122	4	104	–	137	2,592
At 31 December 2011 and 1 January 2012	75,099	52	134	–	5	5,270	80,560
Charge for the year	12,334	429	64	–	22	867	13,716
Disposals	–	–	–	–	–	(102)	(102)
Reclassified as held for sale	(87,839)	–	(168)	–	–	(5,705)	(93,712)
Exchange realignment	406	–	–	–	–	25	431
At 31 December 2012	–	481	30	–	27	355	893
Net book value:							
At 31 December 2012	**–**	**2,820**	**190**	**–**	**143**	**406**	**3,559**
At 31 December 2011	24,532	–	70	–	–	1,516	26,118

The net book value of the Group's office and computer equipment held under finance lease as at 31 December 2012 was approximately HK$74,000 (2011: nil).

During the year ended 31 December 2012, addition of the Group's office and computer equipment held under finance lease was approximately HK$92,000 (2011: nil).

19. GOODWILL

The Group

	HK$'000
Cost:	
At 1 January 2011	78,717
Derecognition on cessation of business	(81,459)
Exchange realignment	2,742
At 31 December 2011, 1 January 2012 and 31 December 2012	–
Impairment:	
At 1 January 2011	78,717
Derecognition on cessation of business	(81,459)
Exchange realignment	2,742
At 31 December 2011, 1 January 2012 and 31 December 2012	–
Carrying amount:	
At 31 December 2012	**–**
At 31 December 2011	–

20. INTANGIBLE ASSETS

The Group

	Funeral Parlour Licence and Undertaker's Licence HK$'000 (note (i))	Sub-contracting Agreement HK$'000 (note (ii))	Trademarks HK$'000 (note (iii))	Undertaker's Licence HK$'000 (note (iv))	Total HK$'000
Cost:					
At 1 January 2011	–	–	9,436	–	9,436
Acquisition of a subsidiary	–	–	–	1,013	1,013
Exchange realignment	–	–	329	–	329
At 31 December 2011 and 1 January 2012	–	–	9,765	1,013	10,778
Additions	6,000	–	–	–	6,000
Additions through acquisition of a subsidiary (Note 40)	–	79,996	–	–	79,996
Reclassified as held for sale	–	–	(9,765)	–	(9,765)
At 31 December 2012	6,000	79,996	–	1,013	87,009
Accumulated amortisation and impairment:					
At 1 January 2011	–	–	7,077	–	7,077
Amortise for the year	–	–	2,405	–	2,405
Exchange realignment	–	–	283	–	283
At 31 December 2011 and 1 January 2012	–	–	9,765	–	9,765
Reclassified as held for sale	–	–	(9,765)	–	(9,765)
Impairment loss recognised	–	–	–	1,013	1,013
At 31 December 2012	–	–	–	1,013	1,013
Carrying amount:					
At 31 December 2012	**6,000**	**79,996**	**–**	**–**	**85,996**
At 31 December 2011	–	–	–	1,013	1,013

20. INTANGIBLE ASSETS *(Continued)*

Notes:

(i) The Funeral Parlour Licence and the Undertaker's Licence represent the rights granted to the Group by the Food and Environmental Hygiene Department of Hong Kong for carrying on the business of a funeral parlour and an undertaker of burials for an indefinite period of time. Such intangible asset is carried at cost less accumulated impairment losses. The recoverable amount of the intangible asset has been determined based on a value in use calculation.

Based on the estimation of the directors, no impairment loss in respect of the Funeral Parlour Licence and the Undertaker's Licence was recognised during the year ended 31 December 2012, in which the recoverable amount was determined on discounted cash flow method. The calculation use cash flow projections based on financial budgets approved by the management covering a 5-year period. The discount rate applied was approximately 22.05%.

The Funeral Parlour Licence and the Undertaker's Licence associated with the rights for carrying on the business of a funeral parlour and an undertaker of burials are renewable by the Food and Environmental Hygiene Department. The directors of the Company are not aware of any expected impediment with respect to the renewal of the licences and consider that the possibility of failing in licences renewal is remote. Therefore, the directors of the Company consider that the intangible assets are treated as having indefinite useful lives.

(ii) Upon the acquisition of Profit Value Group Limited ("Profit Value") as disclosed in Note 40, the Group obtained a Sub-contracting Agreement entered into between 明德堂貿易（深圳）有限公司 (transliterated as "Ming De Tang Trading (Shenzhen) Limited Company"), an wholly-owned subsidiary of Profit Value incorporated in the PRC, and 惠東縣華僑墓園管理公司 (transliterated as "Huidong County Huaqiao Cemetery Management Company") pursuant to which Ming De Tang Trading (Shenzhen) Limited Company is the sole subcontractor of the Huidong County Huaqiao Cemetery Management Company responsible for the provision of all funeral-related services and products, and assistance necessary for the operation of a licensed commercial cemetery located at Huidong County, Huizhou City, Guangdong Province to the Huidong County Huaqiao Cemetery Management Company. Such intangible asset is carried at cost less accumulated amortisation and impairment losses. The intangible asset is amortised over the unit of production method. Since the intangible asset is not ready for operation, no amortisation is provided.

Based on the estimation of the directors, no impairment loss in respect of the Sub-contracting Agreement was recognised during the year ended 31 December 2012, in which the recoverable amount was determined on discounted cash flow method. The calculation use cash flow projections based on financial budgets approved by the management covering a 12-year period as the directors consider that this is the period to utilise the future economic benefits of the Sub-contracting Agreement. The discount rate applied was approximately 21.06%.

(iii) The Trademarks have definite useful lives and are amortised on a straight line basis over 5 - 10 years. The Trademarks were reclassified as held for sale during the year ended 31 December 2012.

(iv) The Undertaker's Licence represents the rights granted to the Group by the Food and Environmental Hygiene Department of Hong Kong for carrying on the business of an undertaker of burials for an indefinite period of time. Such intangible asset is carried at cost less accumulated impairment losses. The recoverable amount of the intangible asset has been determined based on a value in use calculation.

The directors of the Company expected that the Group will not seek for renewal of the Undertaker's Licence after the expiry date on 12 April 2013. In the opinion of the directors, the intangible assets associated with the Undertaker's Licence was impaired during the year ended 31 December 2012.

21. LONG-TERM PREPAYMENTS

The Group

The long-term prepayments represent the rental prepayments of trademarks, production plant and exhibition halls to Lang Fang Huari Furniture Joint Stock Co., Ltd. ("Huari Furniture").

	HK$'000
Carrying amount:	
At 1 January 2011	15,614
Addition	9,765
Amortise for the year	(7,524)
Refund of prepayment	(2,212)
Exchange realignment	431
At 31 December 2011 and 1 January 2012	16,074
Amortise for the year	(11,255)
Reclassified as held for sale	(4,908)
Exchange realignment	89
At 31 December 2012	–

	2012 HK$'000	2011 HK$'000
Analysed for reporting purposes as:		
Current assets (included in prepayments, deposits and other receivables (Note 26))	–	11,192
Non-current assets	–	4,882
	–	16,074

The amount of rental prepayments of production plant and exhibition halls is classified as current assets as at 31 December 2010 because the Group received early termination notice from Huari Furniture to cease the rental agreements effective in 2011. In the opinion of the directors of the Company, the Company is in the progress of negotiation with Huari Furniture regarding the date of cessation of rental agreements and considers that the Group will then recover the rental prepayments once the cessation of the rental agreements are finalised. During the year ended 31 December 2011, the early termination notice was revised and only the rental of exhibition hall was early terminated on 30 September 2011. The rental of production plant would be expired on 31 December 2012. The amount of approximately HK$6,309,000 was classified as current assets under prepayments, deposits and other receivables (Note 26).

The addition of approximately HK$9,765,000 during the year ended 31 December 2011 represented the prepayment on rental of trademarks for a lease term of two years commencing from 1 January 2012.

As described in Note 14, the Group decided to dispose its indirect household products and other operation. The Group was actively seeking for the buyers during the year ended 31 December 2012. Therefore, the rental prepayments of trademarks were reclassified as held for sale as at 31 December 2012.

22. INTERESTS IN SUBSIDIARIES

	The Company	
	2012	2011
	HK$'000	HK$'000
Unlisted shares, at cost	**78**	78
Less: Provision for impairment loss of investment cost (Note (i))	**(78)**	(78)
	–	–
Amounts due from subsidiaries (Note (ii))	**82,883**	160,897
Less: Provision for impairment loss of amounts due from subsidiaries	**(61,322)**	(48,177)
	21,561	112,720

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

	The Company	
	2012	2011
	HK$'000	HK$'000
Balance at the beginning of the year	**48,177**	53,056
Provision for impairment loss of amounts due from subsidiaries (Note (iii))	**14,930**	–
Reversal of provision for impairment loss of amounts due from subsidiaries (Note (iv))	**(1,785)**	(4,879)
Balance at the end of the year	**61,322**	48,177

Notes:

(i) In view of the accumulated losses and net liabilities position of the Company's subsidiaries as at 31 December 2011 and 2012, the directors of the Company considered that the investment cost would not be recoverable, and thus they concluded that it is appropriate to make provision for impairment loss of investment costs.

(ii) The amounts due from subsidiaries included in the Company's current assets are unsecured, interest-free and recoverable on demand.

(iii) In view of the accumulated losses and net liabilities position of the Company's subsidiaries for the year ended 31 December 2011 and 2012, the directors of the Company considered that the carrying amounts of the amounts due from subsidiaries exceed the recoverable amount, and thus, they concluded that it is appropriate to make provision for impairment in values in respect of the amounts due from subsidiaries.

(iv) The reversal of provision for impairment loss of amounts due from subsidiaries represents the recovery of amounts due from subsidiaries which provision for impairment was previously made.

22. INTERESTS IN SUBSIDIARIES *(Continued)*

Particulars of the Company's subsidiaries at 31 December 2012 are as follows:

Name of subsidiary	Place of incorporation and kind of legal entity	Issued and paid-up capital	Percentage of equity attributable to the Group	Percentage of voting power held	Principal activities and place of operation
Alwin Asia Investment Limited	British Virgin Islands, limited liability company	US$10,000	100%	100%	Investment holding, Hong Kong
Tedwood International Limited	Hong Kong, limited liability company	HK$1	100%	100%	Inactive, Hong Kong
EMAX Venture Limited	British Virgin Islands, limited liability company	US$1	100%	100%	Inactive, Hong Kong
General Asia Holdings Limited	British Virgin Islands, limited liability company	US$1	100%	100%	Investment holding, Hong Kong
Trader Group International Limited	British Virgin Islands, limited liability company	US$10,000	75%	75%	Investment holding, Hong Kong
Langfang Huari Hengyu Home Co., Ltd.	The PRC, wholly owned foreign enterprise	US$13,700,000	75%	75%	Manufacture and sales of household products, the PRC
Able Profit (Hong Kong) Limited	Hong Kong, limited liability company	HK$1	100%	100%	Provision of funeral services and sale of funeral related products, Hong Kong
South China Memorial Park & Funeral Service Limited	Hong Kong, limited liability company	HK$10,000	60%	60%	Provision of funeral services and sale of funeral related proudicts, Hong Kong
Ming Ting Rui He (Beijing) Trading Limited	The PRC, wholly owned foreign enterprise	US$1,000,000	100%	100%	Inactive, the PRC

22. INTERESTS IN SUBSIDIARIES *(Continued)*

Name of subsidiary	Place of incorporation and kind of legal entity	Issued and paid-up capital	Percentage of equity attributable to the Group	Percentage of voting power held	Principal activities and place of operation
Most Fame (China) Limited	Hong Kong, limited liability company	HK$1	100%	100%	Inactive, Hong Kong
Profit Value Group Limited*	British Virgin Island, limited liability company	US$1	100%	100%	Investment holding, Hong Kong
The Shrine of Nansha Limited*	Hong Kong, limited liability company	HK$1	100%	100%	Investment holding, Hong Kong
Ming De Tang Trading (Shenzhen) Limited Company*	The PRC, wholly owned foreign enterprise	HK$1,000,000	100%	100%	Inactive, the PRC

* Profit Value Group Limited, The Shrine of Nansha Limited, and Ming De Tang Trading (Shenzhen) Limited Company were acquired on 10 April 2012.

23. INVENTORIES

	The Group	
	2012	2011
	HK$'000	HK$'000
Raw materials	**–**	38,471
Work in progress	**–**	27,055
Finished goods	**138**	72,408
	138	137,934

No inventories of the Group were carried at net realisable value (2011: Nil) at the end of the reporting period.

Movement in write down of obsolete inventories is as follows:

	The Group	
	2012	2011
	HK$'000	HK$'000
Balance at the beginning of the year	**–**	2,436
Written off of obsolete inventories	**–**	(2,436)
Balance at the end of the year	**–**	–

24. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	The Group	
	2012	2011
	HK$'000	HK$'000
Investment at fair value	**3,129**	3,723

As at 31 December 2012, the financial assets at fair value through profit or loss represent four principal and return-protected financial products ("Financial Products 2012") issued by several financial institutions in the PRC. The Financial Products 2012 were all matured within one year and were classified as current assets.

The financial products were classified as financial assets designated as at fair value through profit or loss. The directors of the Company estimated that the fair values of the Financial Products 2012 as at the year end date were approximate to their carrying amounts with reference to the indicative values provided by those financial institutions.

25. TRADE RECEIVABLES

The average credit period on sales of goods is 30 days (2011: 90 days to 180 days). In view of the fact that the Group's trade receivables relate to a large number of diversified customers, there is no significant concentration of credit risk. Trade receivables are non-interest bearing.

	The Group	
	2012	2011
	HK$'000	HK$'000
Trade receivables	**315**	51,891
Less: Provision for impairment loss of trade receivables	**–**	(9,675)
	315	42,216

As at 31 December 2011, the Group's trade receivables of approximately HK$9,675,000 were individually determined to be impaired. The individual impaired receivables related to customers that were in financial difficulties and management assessed that the receivables were not expected to be recovered. The Group does not hold any collateral over these balances. No trade receivables are considered to be impaired as at 31 December 2012.

25. TRADE RECEIVABLES *(Continued)*

An ageing analysis of trade receivables as at the end of the reporting period, based on the invoice date and net of provisions, is as follows:

	2012 HK$'000	2011 HK$'000
0-30 days	315	2,798
31-60 days	–	3,340
61-90 days	–	1,138
91-180 days	–	11,929
Over 180 days	–	23,011
	315	42,216

Included in the Group's trade receivables balance are debtors with a carrying amount of approximately HK$nil (2011: HK$30,452,000) which are past due at the end of the reporting period for which the Group has not provided for impairment loss. The Group does not hold any collateral over these balances.

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

	The Group	
	2012 HK$'000	2011 HK$'000
91-180 days	–	7,441
Over 180 days	–	23,011
	–	30,452

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

	The Group	
	2012 HK$'000	2011 HK$'000
Balance at the beginning of the year	9,675	8,403
Reversal of provision for impairment loss	(777)	(1,222)
Provision for impairment loss of trade receivables	6,406	2,187
Exchange realignment	52	307
Reclassified as held for sale	(15,356)	–
Balance at the end of the year	–	9,675

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

26. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	The Group		The Company	
	2012	2011	**2012**	2011
	HK$'000	HK$'000	**HK$'000**	HK$'000
Rental prepayment for production plant and exhibition hall	**–**	6,309	**–**	–
Rental prepayments for trademarks	**–**	4,883	**–**	–
Prepayments	**1,735**	81,555	**285**	88
Other deposits and receivables	**140**	7,419	**–**	793
	1,875	100,166	**285**	881
Less: Provision for impairment loss of prepayments and other receivables	**–**	(13,445)	**–**	–
	1,875	86,721	**285**	881

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

	The Group	
	2012	2011
	HK$'000	HK$'000
Balance at the beginning of the year	**13,445**	8,145
Reversal of provision for impairment loss	**(376)**	(3,786)
Provision for impairment loss of prepayments and other receivables	**4,144**	8,728
Exchange realignment	**72**	358
Reclassified as held for sale	**(17,285)**	–
Balance at the end of the year	**–**	13,445

Included in the amount of prepayments, approximately HK$72,971,000 is prepayment for purchase of raw materials as at 31 December 2011.

27. CASH AND BANK BALANCES

	The Group		The Company	
	2012	2011	**2012**	2011
	HK$'000	HK$'000	**HK$'000**	HK$'000
Cash and bank balances of continuing operations	**5,352**	50,416	**35**	1,991
Cash and bank balances included in a disposal group classified as held for sale	**13,906**	–	**–**	–
	19,258	50,416	**35**	1,991

27. CASH AND BANK BALANCES *(Continued)*

At the end of the reporting period, the cash and bank balances of the Group denominated in RMB amounted to approximately HK$16,311,000 (2011: HK$35,895,000). RMB is not freely convertible into other currencies, however, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

28. PLEDGED BANK DEPOSITS

As at 31 December 2012, the Group's bank deposits of approximately HK$28,240,000 denominated in HKD were pledged as security for the Group's credit facilities granted by a bank.

As at 31 December 2011, the Group's bank deposits of approximately HK$1,390,000 denominated in RMB were pledged as security for the Group's credit facilities granted by a bank.

29. ASSETS CLASSIFIED AS HELD FOR SALE

	2012 **HK$'000** **(Note (i))**	2011 HK$'000 (Note (ii))
Property, plant and equipment	**13,788**	23,924
Inventories	**98,343**	–
Trade receivables	**45,503**	–
Prepayments, deposits and other receivables	**77,583**	–
Cash and bank balances	**13,906**	–
Assets classified as held for sale	**249,123**	23,924
Trade payables	**33,828**	–
Other payables and accruals	**10,538**	–
Receipts in advance	**32,290**	–
Liabilities directly associated with assets classified as held for sale	**76,656**	–
Net assets classified as held for sale	**172,467**	23,924

Notes:

(i) As described in Note 14, the Group decided to dispose of its indirect retail of household products and other operations. The Group was actively seeking for the buyers during the year ended 31 December 2012. Therefore, all assets and liabilities of the indirect retail of household products and other operations were classified as held for sale as at 31 December 2012.

(ii) During the year ended 31 December 2011, the Group intended to dispose of a building as the directors considered that it can minimise the operation costs and risks and generated additional capital for the daily operations of the Group. The building was originally intended for self-use for manufacturing household products and furniture. On 8 March 2012, Langfang Huari Hengyu Home Co., Ltd., entered into an agreement with an independent third party to which Langfang Huari Hengyu Home Co., Ltd. agreed to sell the building for a consideration of approximately HK$23,924,000. Therefore, the building with net book value of approximately HK$50,793,000 was impaired to HK$23,924,000 before its reclassification to assets classified as held for sale. Impairment loss of HK$26,869,000 was recognised.

30. TRADE PAYABLES

An ageing analysis of trade payables as at the end of the reporting period, based on the invoice date, is as follows:

	The Group	
	2012	2011
	HK$'000	HK$'000
0-30 days	**362**	15,518
31-60 days	**–**	–
61-90 days	**–**	4,354
91-180 days	**–**	6,982
Over 180 days	**–**	19,155
	362	46,009

31. OTHER PAYABLES AND ACCRUALS

	The Group		The Company	
	2012	2011	**2012**	2011
	HK$'000	HK$'000	**HK$'000**	HK$'000
Consideration payable on acquisition of subsidiaries (Note 40)	**27,000**	–	**–**	–
Other loan	**4,000**	–	**4,000**	–
Other payables	**1,478**	2,822	**–**	–
Value-added tax payables	**–**	1,149	**–**	–
Accruals	**2,527**	4,661	**2,465**	1,421
	35,005	8,632	**6,465**	1,421

Other loan of HK$4,000,000 represents cash advance from an independent third party which is unsecured, interest-free and repayable on demand.

32. RECEIPTS IN ADVANCE

	The Group	
	2012	2011
	HK$'000	HK$'000
Receipts in advance	**670**	54,241

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

33. AMOUNT DUE TO A DIRECTOR

The Group and the Company

The amount due to a director is unsecured, interest-free and repayable on demand.

34. AMOUNT DUE TO A SHAREHOLDER

The Group

The amount due to a shareholder is unsecured, interest-free and repayable on demand.

35. OBLIGATIONS UNDER FINANCE LEASE

As at 31 December 2011 and 2012, the total future minimum lease payments under finance lease and their present values are as follows:

The Group

	Minimum lease payments 2012 HK$'000	Minimum lease payments 2011 HK$'000	**Present value of minimum lease payments 2012 HK$'000**	Present value of minimum lease payments 2011 HK$'000
Amount payable:				
Within one year	**26**	15	**24**	11
In the second to fifth years, inclusive	**56**	–	**51**	–
Total minimum finance lease payments	**82**	15	**75**	11
Future finance charges	**(7)**	(4)		
Total net finance lease payables	**75**	11		
Portion classified as current liabilities	**(24)**	(11)		
Non-current liabilities	**51**	–		

It is the Group's policy to lease certain of its property, plant and equipment under finance leases. The weighted average effective interest rate on finance lease was approximately 2% per annum and the term entered into ranged from three to five years. Interest rate is fixed at the contract rate. The leases are on a fixed repayment basis and no arrangements have been entered into for contingent rental payments.

36. CONVERTIBLE NOTES

On 6 September 2012, the Company issued convertible notes with a principal of HK$35,000,000 carries at 42% coupon interest. Each note entitles the holder to convert to ordinary shares at a conversion price of HK$0.10.

Conversion may occur at any time between 6 September 2012 to 4 January 2013. The Company will redeem the convertible notes if the notes have not been converted on 5 January 2013, or subject to the agreement between the noteholder and the Company, extended to 5 May 2013. The convertible notes were subsequently extended to 5 May 2013. Annual interest of 42% will be paid monthly until the notes are converted or redeemed.

The convertible notes contain two components: liability and equity elements. The equity element is presented in equity heading "convertible notes reserve". The effective interest rate of the liability component on initial recognition is 57% per annum.

	HK$'000
Proceeds of issue	35,000
Liability component at date of issue	(34,571)
Equity component	429
Liability component at date of issue	34,571
Imputed interest charged	5,113
Coupon interest payable	(4,703)
Liability component at 31 December 2012	**34,981**

37. SHARE CAPITAL

Ordinary shares

	Par value HK$	Number of shares '000	Share capital HK$'000
Authorised:			
At 1 January 2011, 31 December 2011 and 31 December 2012	0.002	250,000,000	500,000
Issued and fully paid:			
At 1 January 2011	0.002	1,744,556	3,489
Shares issued under share option scheme (Note 42)	0.002	13,800	28
At 31 December 2011, 31 January 2012 and 31 December 2012	0.002	**1,758,356**	**3,517**

Share options

Details of the Company's share option scheme are included in Note 38 to the consolidated financial statements.

38. SHARE OPTION SCHEME

Share options

Pursuant to the share option scheme adopted by the shareholders of the Company on 24 May 2002 (the "Old Share Option Scheme"), the Board of the Company may for a consideration of HK$1 offer to selected eligible persons to subscribe for shares of the Company as incentive or rewards for their contribution to the Group. The subscription price will be determined by the Board of the Company in its absolute discretion, in any event, shall not be less than the higher of the nominal value for the time being of each share of the Company, the average closing price of the shares of the Company as stated in the Stock Exchange's daily quotation sheets for the five business days immediately preceding the date on which the relevant option is granted and the closing price of the shares of the Company as stated in the Stock Exchange's daily quotation sheet on the date on which the relevant option is granted.

The maximum number of shares in respect of which options may be granted under the Old Share Option Scheme and other schemes of the Company may not, in aggregate, exceed 30% of the issued share capital of the Company from time to time which have been duly allotted and issued.

The Old Share Option Scheme became effective for a period of ten years commencing 24 May 2002 (the date on which the Old Share Option Scheme was adopted).

As at 31 December 2012, there was no (2011: 27,600,000) outstanding share options issued by the Company under the Old Share Option Scheme.

On 9 December 2010, the Company adopted the new share option scheme (the "New Share Option Scheme"). Pursuant to the New Share Option Scheme, the Board of the Company may for a consideration of HK$1 offer to selected eligible persons to subscribe for shares of the Company as incentive or rewards for their contribution to the Group. The subscription price will be determined by the Board of the Company in its absolute discretion, in any event, shall not be less than the higher of the nominal value for the time being of each share of the Company, the average closing price of the shares of the Company as stated in the Stock Exchange's daily quotations sheets for the five business days immediately preceding the date on which the relevant option is granted and the closing price of the shares of the Company as stated in the Stock Exchange's daily quotation sheet on the date on which the relevant option is granted.

The maximum number of shares in respect of which options may be granted under the New Share Option Scheme and other schemes of the Company may not, in aggregate, exceed 30% of the issued share capital of the Company from time to time which have been duly allotted and issued.

The New Share Option Scheme became effective for a period of ten years commencing on 9 December 2010 (the date on which the New Share Option Scheme was adopted).

As at 31 December 2012 and 2011, no share options had been granted under the New Share Option Scheme.

39. RESERVES

(A) The Group

The amounts of the Group's reserves and the movements therein for the current and prior years are presented in the consolidated statement of changes in equity on page 32 of the consolidated financial statements.

The Group's contributed surplus as at 31 December 2011 and 2012 represents the amount of HK$36,000,000 transfered from share capital due to a capital reduction in the year ended 31 December 2001.

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

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

Movements in the statutory reserves are as follows:

	Statutory welfare fund	Statutory reserve fund	Total
	HK$'000	HK$'000	HK$'000
At 1 January 2011, 31 December 2011 and 1 January 2012	14,499	29,001	43,500
Transfer to discontinued operations	(14,499)	(29,001)	(43,500)
At 31 December 2012	–	–	–

As the subsidiaries of the Company established in the PRC recorded net losses for the year ended 31 December 2012 and 2011, no appropriation of statutory reserves was made during the years. The statutory reserves were transferred to discontinued operation during the year ended 31 December 2012. Please refer to Note 14 for details of the discontinued operations.

39. RESERVES *(Continued)*

(B) The Company

	Note	Share premium account HK$'000	Contributed surplus HK$'000	Accumulated losses HK$'000	Share option reserve HK$'000	Convertible notes reserve HK$'000	Total HK$'000
At 1 January 2011		216,838	36,000	(147,115)	3,174	–	108,897
Expiry of share option		–	–	690	(690)	–	–
Issue of shares upon exercise of share options		2,696	–	–	(828)	–	1,868
Loss for the year		–	–	(111)	–	–	(111)
At 31 December 2011 and 1 January 2012		219,534	36,000	(146,536)	1,656	–	110,654
Recognition of the equity component of convertible notes	36	–	–	–	–	429	429
Expiry of share option		–	–	1,656	(1,656)	–	–
Loss for the year		–	–	(141,165)	–	–	(141,165)
At 31 December 2012		**219,534**	**36,000**	**(286,045)**	**–**	**429**	**(30,082)**

The Company's contributed surplus as at 31 December 2011 and 2012 represents the amount of HK$36,000,000 transfered from share capital due to a capital reduction in the year ended 31 December 2001.

40. ACQUISITION OF SUBSIDIARIES

For the year ended 31 December 2012

Acquisition of Profit Value

On 15 December 2011, an indirect wholly-owned subsidiary of the Company, EMAX Venture Limited entered into the sale and purchase agreement with Mr. Lau Chi Yan, Pierre to acquire the entire issued share capital and the amount of shareholder's loan of Profit Value at a total consideration of HK$80,000,000 in cash. Profit Value has not carried out any significant business transaction since the acquisition. In the opinion of the directors, the acquisition did not constitute an acquisition of business which the Group principally acquired the Sub-contracting Agreement through the acquisition. Therefore, the acquisition was not disclosed as business combination in accordance with the requirements of HKFRS 3 "Business Combination". The acquisition was accounted for as asset acquisition . The major assets acquired is the Sub-contracting Agreement for the provision of all funeral related services and products, and assistance necessary for the operation of a licensed commercial cemetery as described in Note 20(ii). The acquisition was completed on 10 April 2012.

Summary of the effects of the acquisition is as follows:

	Acquiree's carrying amount	Fair value adjustments	Fair value
	HK$'000	HK$'000	HK$'000
Net assets acquired:			
Cash and bank balances	4	–	4
Amount due to shareholder	(1,005)	–	(1,005)
Intangible assets arising on acquisition (Note 20)	–	79,996	79,996
	(1,001)	79,996	78,995
Shareholder's loan acquired			1,005
			80,000
Total consideration satisfied by:			
Cash consideration			80,000
Net cash outflow arising on acquisition:			
Cash consideration			(80,000)
Cash and cash equivalents acquired			4
			(79,996)

Note:

The Group has paid HK$45,000,000 during the year and HK$27,000,000 was payable as at 31 December 2012, net cash outflow from acquisition of subsidiaries was HK$44,996,000.

During the year ended 31 December 2012, Profit Value and its subsidiaries contribute approximately HK$nil and HK$71,000 to the Group's turnover and loss for the year from the date of acquisition to the end of the reporting period respectively.

If the acquisition had been completed on 1 January 2012, the Group's turnover for the year from continuing operations would not be affected, and loss for the year from continuing operations would have been approximately HK$29,087,000. The pro forma information is for illustrative purpose only and is not necessarily an indication of turnover and results of the Group that actually would have been achieved had the acquisition been completed on 1 January 2012, nor is it intended to be a projection of future results.

40. ACQUISITION OF SUBSIDIARIES *(Continued)*

For the year ended 31 December 2011

Acquisition of South China Memorial Park & Funereal Service Limited

On 28 November 2011, a wholly owned subsidiary of the Company, Able Profit (Hong Kong) Limited, entered into an agreement with an independent third party, to acquire 60% of the entire share capital of South China Memorial Park & Funeral Service Limited, for a total consideration of approximately HK$1,000,000. South China Memorial Park & Funeral Service Limited were principally engaged in provision of funeral services and sale of funeral related products. The acquisition was completed on 15 December 2011.

Summary of the effects of the acquisition of the subsidiary is as follows:

	Acquiree's carrying amount HK$'000	Fair value adjustments HK$'000	Fair value HK$'000
Net liabilities acquired:			
Other payables and accruals	(21)	–	(21)
Intangible assets arising on acquisition (Note 20)	–	1,013	1,013
	(21)	1,013	992
Non-controlling interests arising on acquisition			8
			1,000
Total consideration satisfied by:			
Cash consideration			1,000
Net cash outflow arising on acquisition:			
Cash consideration			(1,000)
Cash and cash equivalents acquired			–
			(1,000)

41. DISPOSAL OF PARTIAL INTEREST IN A SUBSIDIARY WITHOUT LOSING CONTROL

On 24 May 2012, the Company disposed 25% of the entire issued share capital of Trader Group for a total consideration of HK$45,000,000 (the "Disposal of Partial Interest"). Upon the completion of the Disposal of Partial Interest, the Group recognised non-controlling interest of approximately HK$53,177,000. The difference between the consideration and the non-controlling interest recognised of approximately HK$8,177,000 was charged to equity directly.

42. SHARE-BASED PAYMENT TRANSACTIONS

During the year ended 31 December 2012 and 2011, no share options have been granted by the Company.

As at 31 December 2012, the number of shares in respect of which share options had been granted and remained outstanding under the Share Option Scheme was nil (2011: 27,600,000), representing 0.0% (2011: 1.6%) of the shares of the Company in issue at that date.

Details of specific categories of options are as follows:

Participants	Share option type	Date of grant of share options	Exercise period of share options	Exercise price of share options HK$ per share	Fair value at grant date HK$ per share	Closing price of the Company's shares immediately before the grant date HK$ per share
Employees and Consultants	2010A	22 January 2010	22 January 2010 to 21 January 2012	0.1374	0.06	0.139
Consultants	2010B	28 September 2010	28 September 2010 to 27 September 2011	0.157	0.05	0.162

Movement of share options during the years 2012 and 2011 are as follows:

		Number of share options					
Participants	Share option type	Outstanding at 31 January 2012	Granted during the year	Exercised during the year	Forfeited during the year	Expired during the year	Outstanding at 31 December 2012
Employees and Consultants	2010A	27,600,000	–	–	–	(27,600,000)	–

42. SHARE-BASED PAYMENT TRANSACTIONS *(Continued)*

Participants	Share option type	Outstanding at 31 January 2011	Granted during the year	Exercised during the year	Forfeited during the year	Expired during the year	Outstanding at 31 December 2011
		Number of share options					
Employees and Consultants	2010A	41,400,000	–	(13,800,000)	–	–	27,600,000
Consultants	2010B	13,800,000	–	–	–	(13,800,000)	–
		55,200,000	–	(13,800,000)	–	(13,800,000)	27,600,000

The following share options granted under the Share Option Scheme were exercised during the year ended 31 December 2011:

Share option type	Number exercised	Exercise date	Share price at exercise date	Weighted average closing price of the Company's shares immediately before the exercise date
	'000		HK$	HK$
2010A	13,800	19 April 2012	0.124	0.1463

43. CONTINGENT LIABILITIES

The Group and the Company had no contingent liabilities as at 31 December 2012 (2011: Nil).

44. OPERATING LEASE ARRANGEMENTS

As lessee

The Group leases office properties, staff quarter and funeral parlour under operating leases arrangements. Leases for properties are negotiated for lease terms ranging from one to five years.

At 31 December 2012, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	The Group	
	2012	2011
	HK$'000	HK$'000
Land and buildings		
Within one year	**56,082**	213
In the second to fifth years, inclusive	**181,350**	44
	237,432	257

45. MATERIAL RELATED PARTY TRANSACTIONS

Save as disclosed elsewhere in the consolidated financial statements, the Group had the following material transactions with related parties during the year:

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

	2012 **HK$'000**	2011 HK$'000
Short term employee benefits	**3,172**	2,520
Pension scheme contribution	**57**	36
Total compensation paid to key management personnel	**3,229**	2,556

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

46. EVENT AFTER THE REPORTING PERIOD

On 4 February 2013, General Asia, a direct wholly-owned subsidiary of the Company, entered into a sale and purchase agreement with Future Step Development Limited ("Future Step"), an independent third party, and Ms. Zhang Zongying ("Ms. Zhang") pursuant to which the Future Step has agreed to acquire and General Asia has agreed to sell the 7,500 ordinary shares of Trader Group International Limited, non-wholly-owned subsidiary of General Asia, of US$1.00 each, representing 75% of the entire issued share capital of Trader Group International Limited, for a total consideration of HK$70,000,000. The transaction constitutes a very substantial disposal for the Company under the Rules Governing the Listing of Securities on the Growth Enterprise Market of the Stock Exchange. Details of the transaction were set out in the Company's announcement dated 6 March 2013.

47. COMPARATIVE

Certain comparative figures have been reclassified to conform to the current year's presentation.

48. APPROVAL OF THE CONSOLIDATED FINANCIAL STATEMENTS

The consolidated financial statements were approved and authorised for issue by the board of directors on 20 March 2013.

FIVE YEAR FINANCIAL SUMMARY

For the year ended 31 December 2012

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

	Year ended 31 December				
	2012	2011	2010	2009	2008
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
RESULTS					
Turnover	**39,165**	177,083	181,338	297,460	477,827
Cost of sales	**(42,633)**	(156,923)	(171,930)	(252,309)	(323,895)
Gross profit	**(3,468)**	20,160	9,408	45,151	153,932
Other revenue	**260**	310	969	2,473	3,496
Other net gain and loss	**6,987**	(32,509)	14,124	(26,877)	88
Selling and distribution costs	**(4,233)**	(20,942)	(15,981)	(45,896)	(43,521)
Administrative expenses	**(19,824)**	(28,442)	(24,918)	(33,755)	(35,985)
Impairment loss recognised in respect of goodwill	**–**	–	–	(61,576)	(11,868)
Equity-settled share-based payments	**–**	–	(8,004)	–	–
(Loss)/profit from operations	**(20,278)**	(61,423)	(24,402)	(120,480)	66,142
Finance costs	**(8,000)**	(4)	(4)	(4)	(4)
(Loss)/profit before taxation	**(28,278)**	(61,427)	(24,406)	(120,484)	66,138
Taxation	**–**	6,657	(6,574)	–	–
(Loss)/profit for the year from continuing operations	**(28,278)**	(54,770)	(30,980)	(120,484)	66,138
Discontinued operations					
Profit for the year from discontinued operations	**(67,955)**	2,250	1,382	–	–
(Loss)/profit for the year	**(96,233)**	(52,520)	(29,598)	(120,484)	66,138
Attributable to:					
Owners of the Company	**(80,210)**	(52,520)	(29,598)	(120,484)	66,138
Non-controlling interests	**(16,023)**	–	–	–	–
	(96,233)	(52,520)	(29,598)	(120,484)	66,138

	As at 31 December				
	2012	2011	2010	2009	2008
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
ASSETS AND LIABILITIES					
Total assets	**377,727**	378,337	390,230	425,921	495,665
Total liabilities	**(162,792)**	(113,943)	(84,160)	(140,779)	(108,014)