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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



**FIRST QUARTERLY**  
**REPORT 2013**

\* For identification purpose only

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

GEM has been positioned as a market designed to accommodate companies to which a higher investment risk may be attached than other companies listed on the Stock Exchange. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration. The greater risk profile and other characteristics of GEM mean that it is a market more suited to professional and other sophisticated investors.

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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.*

## FIRST QUARTERLY RESULTS (UNAUDITED)

The board of directors (the "Board") of FAVA International Holdings Limited (the "Company") is pleased to announce the unaudited consolidated results of the Company and its subsidiaries (the "Group") for the three months ended 31 March 2013 together with the comparative figures.

### CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (UNAUDITED)

For the three months ended 31 March 2013

|   | Notes | Three months ended<br>31 March |                  |
|---|-------|--------------------------------|------------------|
|   |       | 2013<br>HK\$'000               | 2012<br>HK\$'000 |
| <b>Continuing operations</b>                          |       |                                |                  |
| Turnover  | 2     | 17,666                         | 249              |
| Cost of sales   |       | (17,957)                       | (111)            |
| Gross (loss)/profit                                   |       | (291)                          | 138              |
| Other revenue   |       | 40                             | 68               |
| Other income  |       | 6                              | 38               |
| Selling and distribution costs                        |       | (1,207)                        | (56)             |
| Administrative expenses                               |       | (4,474)                        | (4,346)          |
| Other Operating expenses                              |       | –                              | –                |
| Loss from operations                                  |       | (5,926)                        | (4,158)          |
| Finance costs   |       | (3,941)                        | (1)              |
| Loss before taxation                                  |       | (9,867)                        | (4,159)          |
| Taxation  | 3     | –                              | –                |
| <b>Loss for the period from continuing operations</b> |       | <b>(9,867)</b>                 | <b>(4,159)</b>   |
| <b>Discontinued operations</b>                        |       |                                |                  |
| Loss for the period from discontinued operations      |       | (1,757)                        | (5,392)          |
| Loss for the period                                   |       | (11,624)                       | (9,551)          |
| Attributable to:                                      |       |                                |                  |
| Owners of the Company                                 |       | (9,697)                        | (9,378)          |
| Non-controlling interests                             |       | (1,927)                        | (173)            |
|   |       | (11,624)                       | (9,551)          |

|   |       | <b>Three months ended</b> |          |
|---|-------|---------------------------|----------|
|   |       | <b>31 March</b>           |          |
|   |       | <b>2013</b>               | 2012     |
|   | Notes | <b>HK\$'000</b>           | HK\$'000 |
| Loss for the period                                       |       | <b>(11,624)</b>           | (9,551)  |
| Interim dividend  | 4     | –                         | –        |
| Other comprehensive income<br>for the period, net of tax  |       |                           |          |
| Exchange differences on<br>translating foreign operations |       | <b>1,258</b>              | 1,929    |
| <b>Total comprehensive loss for the period</b>            |       | <b>(10,366)</b>           | (7,622)  |
| Total comprehensive loss attributable to:                 |       |                           |          |
| Owners of the Company                                     |       | <b>(8,744)</b>            | (7,449)  |
| Non-controlling interests                                 |       | <b>(1,622)</b>            | (173)    |
|   |       | <b>(10,366)</b>           | (7,622)  |
|   |       | <b>HK cents</b>           | HK cents |
| Loss per share  |       |                           |          |
| From continuing and discontinued operations               |       |                           |          |
| – Basic and diluted                                       | 5     | <b>(0.55)</b>             | (0.53)   |
| From continuing operations                                |       |                           |          |
| – Basic and diluted                                       | 5     | <b>(0.48)</b>             | (0.23)   |

## CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (UNAUDITED)

|  | Share<br>Capital<br>HK\$'000 | Share<br>Premium<br>HK\$'000 | Contributed<br>Surplus<br>HK\$'000 | Share<br>options<br>reserve<br>HK\$'000 | Convertible<br>notes<br>reserve<br>HK\$'000 | Exchange<br>reserve<br>HK\$'000 | Statutory<br>reserves<br>HK\$'000 | Accumulated<br>losses<br>HK\$'000 | Discontinued<br>operations<br>HK\$'000 | Subtotal<br>HK\$'000 | Non-<br>controlling<br>interest<br>HK\$'000 | Total<br>equity<br>HK\$'000 |
|--|------------------------------|------------------------------|------------------------------------|---|---|---------------------------------|-----------------------------------|-----------------------------------|--|----------------------|---|-----------------------------|
| For the three months ended                                     |                              |                              |                                    |   |   |                                 |                                   |                                   |  |                      |   |                             |
| 31 March 2012  |                              |                              |                                    |   |   |                                 |                                   |                                   |  |                      |   |                             |
| At 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 period  | -                            | -                            | -                                  | -                                       | -   | -                               | -                                 | (9,378)                           | -                                      | (9,378)              | (173)                                       | (9,551)                     |
| Other comprehensive<br>income for the period                   | -                            | -                            | -                                  | -                                       | -   | 1,929                           | -                                 | -                                 | -                                      | 1,929                | -   | 1,929                       |
| Total comprehensive<br>(loss)/income<br>for the period         | -                            | -                            | -                                  | -                                       | -   | 1,929                           | -                                 | (9,378)                           | -                                      | (7,449)              | (173)                                       | (7,622)                     |
| Expiry of share options  | -                            | -                            | -                                  | (1,656)                                 | -   | -                               | -                                 | 1,656                             | -                                      | -                    | -   | -                           |
| At 31 March 2012   | 3,517                        | 219,534                      | 36,000                             | -                                       | -   | 46,516                          | 43,500                            | (92,114)                          | -                                      | 256,953              | (181)                                       | 256,772                     |
| For the three months ended                                     |                              |                              |                                    |   |   |                                 |                                   |                                   |  |                      |   |                             |
| 31 March 2013  |                              |                              |                                    |   |   |                                 |                                   |                                   |  |                      |   |                             |
| At 1 January 2013  | 3,517                        | 219,534                      | 36,000                             | -                                       | 429   | -                               | -                                 | (171,123)                         | 89,383                                 | 177,740              | 37,195                                      | 214,935                     |
| Loss for the period  | -                            | -                            | -                                  | -                                       | -   | -                               | -                                 | (9,697)                           | -                                      | (9,697)              | (1,927)                                     | (11,624)                    |
| Other comprehensive<br>income for the period                   | -                            | -                            | -                                  | -                                       | -   | 953                             | -                                 | -                                 | -                                      | 953                  | 305   | 1,258                       |
| Total comprehensive<br>(loss)/income<br>for the period         | -                            | -                            | -                                  | -                                       | -   | 953                             | -                                 | (9,697)                           | -                                      | (8,744)              | (1,622)                                     | (10,366)                    |
| Expiry of convertible notes                                    | -                            | -                            | -                                  | -                                       | (429)                                       | -                               | -                                 | 429                               | -                                      | -                    | -   | -                           |
| Transfer to discontinued<br>operations                         | -                            | -                            | -                                  | -                                       | -   | (820)                           | -                                 | -                                 | 820                                    | -                    | -   | -                           |
| Recognition of the equity<br>component of convertible<br>notes | -                            | -                            | -                                  | -                                       | 43  | -                               | -                                 | -                                 | -                                      | 43                   | -   | 43                          |
| At 31 March 2013   | 3,517                        | 219,534                      | 36,000                             | -                                       | 43  | 133                             | -                                 | (180,391)                         | 90,203                                 | 169,039              | 35,573                                      | 204,612                     |

Notes:

## 1. BASIS OF PREPARATION

The Group's unaudited first quarterly results have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by Hong Kong Institute of Certified Public Accountants ("HKICPA"), accounting principles generally accepted in Hong Kong and the applicable disclosures requirements required by the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited (the "GEM Listing Rules") and the Companies Ordinance (Chapter 32 of the Laws of Hong Kong).

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

The accounting policies adopted in preparing the unaudited condensed consolidated financial statements for the three months ended 31 March 2013 are consistent with those adopted in the annual report of the Company for the year ended 31 December 2012.

## 2. TURNOVER

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:

|  | <b>Three months ended</b> |                    |
|--|---------------------------|--------------------|
|  | <b>31 March</b>           |                    |
|  | <b>2013</b>               | <b>2012</b>        |
|  | <b>HK\$'000</b>           | <b>HK\$'000</b>    |
|  | <b>(Unaudited)</b>        | <b>(Unaudited)</b> |
| <b>Continuing operations</b>                                       |                           |                    |
| Provision of funeral services and sale of funeral related products | <b>17,666</b>             | 249                |
| <b>Discontinued operations</b>                                     |                           |                    |
| Indirect retail of household products and others                   | <b>29,234</b>             | 35,850             |
|  | <b>46,900</b>             | 36,099             |

### 3. TAXATION

No provision for Hong Kong profits tax has been made as the Group has no assessable profit in Hong Kong for the three months ended 31 March 2013 (three months ended 31 March 2012: Nil).

No EIT was charged for the three months ended 31 March 2013 as the PRC subsidiary of the Group have recorded loss (three months ended 31 March 2012: Nil).

There was no significant unprovided deferred taxation for the three months ended 31 March 2013 (three months ended 31 March 2012: Nil).

Deferred tax had not been provided as there were no significant temporary differences at the period-end date (three months ended 31 March 2012: Nil).

### 4. INTERIM DIVIDEND

No interim dividend has been paid or declared by the Company for the three months ended 31 March 2013 (three months ended 31 March 2012: Nil).

### 5. LOSS PER SHARE

The calculation of basic loss per share from continuing and discontinued operations is based on the loss for the period attributable to owners of the Company of approximately HK\$9,697,000 (2012: approximately HK\$9,378,000) and the weighted average 1,758,355,970 (2012: 1,758,355,970) ordinary shares in issue during the period.

The calculation of basic loss per share from continuing operations is based on the loss for the period attributable to owners of the Company of approximately HK\$8,379,000 (2012: approximately HK\$3,986,000) and the weighted average 1,758,355,970 (2012: 1,758,355,970) ordinary shares in issue during the period.

Diluted loss per share for both continuing and discontinued operations for the three months ended 31 March 2013 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 three months ended 31 March 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.

There was no diluting event existing during the three months ended 31 March 2013 and 2012.

## MANAGEMENT DISCUSSION AND ANALYSIS

### BUSINESS AND FINANCIAL REVIEW

The Group's reportable businesses during the three months ended 31 March 2013 (the "Period") are the funeral business and the household products business.

The Group's total operating revenue during the Period amounted to approximately HK\$46,900,000, representing an increase of 29.92% as compared to the same period in last year, and the total losses were about HK\$11,624,000.

### FUNERAL BUSINESS

The Group's total revenue during the Period from the provision of funeral services and sale of funeral-related products amounted to approximately HK\$17,666,000.

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.

The Group has completed the acquisition of the 100% equity interest of Profit Value Group Limited in April 2012. The acquisition enables 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 indirectly wholly-owned by Profit Value Group Limited in China) and Huidong County Huaqiao Cemetery Management Company. 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.



As Grand Peace Funeral Parlour officially started its operation on 27 April 2012, and Huidong County Huaqiao Cemetery has not commenced its operation yet, the results of the Period is not comparable with the figures of the same period in year 2012.

Just entering into 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, i.e. HK\$4,650,000 per month which were included as the major portion of the cost of sales of the funeral business, and employee wages remained unchanged, the Group's funeral business during the Period recorded a net loss of HK\$9,867,000.

## 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. Despite of the actions taken by the Group to mitigate the influences of the above-mentioned factors on the Group, the results yielding were still unsatisfactory.

For the three months ended 31 March 2013, the total sales revenue from the household products business amounted to approximately HK\$29,234,000, representing an decrease of 18.45% as compared to the same period last year. The net loss from the household products business amounted to approximately HK\$1,757,000, 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.

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).

The Group has completed the disposal of 25% equity interests of its subgroup engaged in the household products business to an independent third party on 24 May 2012.

After considering of 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.

## VERY SUBSTANTIAL DISPOSAL

On 4 February 2013, General Asia Holding Limited (“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, and a special general meeting of the Company will be held on 27 May 2013 to approve the transaction.

Details of the transaction were set out in the Company’s announcement dated 6 March 2013 and circular dated 8 May 2013.

## 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 owing 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 ("Sun Finance") 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.

On 6 May 2013, the Company and Sun Finance entered into a supplemental agreement, pursuant to which the Company and Sun Finance agreed to, among other things, amend and supplement the terms of the Convertible Notes to the effect that the maturity date of the Convertible Notes be extended and the Company shall have the right to redeem the whole or part of the outstanding principal amount of the Convertible Note(s) prior to the maturity date of the Convertible Notes.

On 6 May 2013, the Company redeemed HK\$7,000,000 of the Convertible Notes. Upon redemption of the Convertible Notes in the principal amount of HK\$7,000,000, the aggregate outstanding principal amount of the Convertible Notes amounted to HK\$28,000,000.

For details, please refer to the announcements of the Company dated 3 September 2012 and 6 May 2013.

## PROPOSED PLACING OF CONVERTIBLE NOTES

On 17 October 2012, the Company and the Sun Securities Limited (the "Placing Agent") entered into a placing agreement (the "Placing Agreement"), pursuant to which the Placing Agent 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, 9 April 2013 and 22 April 2013 respectively and the circular dated 8 November 2012.

## LIQUIDITY AND FINANCIAL RESOURCE

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

As at 31 March 2013 cash and bank balances of the Group was approximately HK\$19,240,000 (2012 approximately HK\$39,463,000).

As at 31 March 2013, the total borrowings of the Group amounted to approximately HK\$39,050,000 (2012: approximately HK\$93,000), representing (i) obligation under finance leases of approximately HK\$69,000 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.

## DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Other than the new share option scheme adopted on 9 December 2010, during the period, the Company or any of its subsidiaries was not a party to any arrangement to enable the Directors to acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate.

As at 31 March 2013, none of the Directors or chief executives of the Company held any share options.

## CODE OF CONDUCT REGARDING SECURITIES TRANSACTIONS BY DIRECTORS

During the three months ended 31 March 2013, 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 had also made specific enquiries of all Directors and the Company was not aware of any non-compliance with the required standard of dealings and its code of conduct regarding securities transactions by directors.

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

### (A) DIRECTORS’ AND CHIEF EXECUTIVES’ INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 31 March 2013, the interests and short positions of the Directors and chief executive of the Company in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO), which are required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 & 8 of Part XV of the SFO (including interests and short positions which they are taken or deemed to have under such provisions of the SFO) or which are required pursuant to Section 352 of the SFO to be entered in the register referred to therein, or as otherwise notified to the Company and the Stock Exchange pursuant to the required standard of dealings by directors as referred to in Rules 5.46 of the GEM Listing Rules were as follows:

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

| Name of director | Number of shares held, capacity and nature of interest |                                  |   |                        | Total       | Approximate percentage of the Company’s total issued share capital (Note 1) |
|------------------|--|----------------------------------|---|------------------------|-------------|---|
|                  | Directly beneficially owned                            | Through spouse or minor children | Through controlled corporation (Note 2) | Beneficiary of a trust |             |   |
| 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 March 2013.
- (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 March 2013, none of the Directors and chief executive of the Company was, under Divisions 7 & 8 of Part XV of the SFO, taken to be interested or deemed to have any other interests or short positions in the shares, underlying shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) that were required to be entered into the register kept by the Company pursuant to Section 352 of the SFO or were required to be notified to the Company and the Stock Exchange pursuant to the GEM Listing Rules.

(B) **SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES**

So far as were known to the Directors or chief executive of the Company, as at 31 March 2013, 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***

| <b>Name</b>                     | <b>Nature and capacity of interest</b> | <b>Number of shares held</b> | <b>Approximate percentage of interest</b><br>(Note 1) |
|---------------------------------|--|------------------------------|---|
| <b>Substantial Shareholders</b> |  |                              |   |
| 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 March 2013.

Save as disclosed above, as at 31 March 2013, 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 executives' interests and short positions in shares, underlying shares and debentures" above, had interests or short positions in the shares or underlying shares of the Company that was required to be recorded pursuant to Section 336 to the SFO.

## **CHARGE ON GROUP'S ASSETS**

Save as the finance lease contract for the Group's office equipment, the Group did not have any other charge on its assets as at 31 March 2013 (2012: Save as the finance lease contract for the Group's office equipment, the Group did not have any other charge on its assets).

## **FOREIGN CURRENCY RISK**

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 had no contingent liabilities at the balance sheet date.

## 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 March 2013, the audit committee comprised three members, namely Mr. LIU Qing Chen, Mr. ZHANG Chun Qiang and Ms. TAN Xiao Yan 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. The Audit Committee has reviewed the Group's first quarterly results announcement and report for the three months ended 31 March 2013 and provided advices and recommendations to the Board. After the review of the financial statements, the members of the Audit Committee were of the opinion that such statements comply with the applicable accounting standards, the GEM Listing Rules and other applicable laws and regulations and that adequate disclosure had been made.

## CORPORATE GOVERNANCE PRACTICES

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

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

The Group deviates from Code Provision A.2.1 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.

Save as disclosed above, for the three months ended 31 March 2013, the Company complied with the code provisions of the Code.

## SHARE OPTION SCHEME

On 9 December 2010, the company adopted a share option scheme (the “Share Option Scheme”). Pursuant to the Share Option Scheme, the Board may for a consideration of HK\$1.00 offer to selected eligible persons (as defined in the circular of the Company dated 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 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 Share Option Scheme is 527,506,791, representing 30% of the issued shares of the Company as at the date of this report.

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

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

The Company has not grant any options under the Share Option Scheme for the three months ended 31 March 2013.

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

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

For the three months ended 31 March 2013, there was no purchase, sale or redemption by the Company, or any of its subsidiaries, of the Company's listed securities.

## **COMPETING INTEREST**

None of the Directors or the management shareholders of the Company (as defined in the GEM Listing Rules) or their respective associates had any interest in any business which competed or might compete with the business of the Group for the three months ended 31 March 2013.

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

Hong Kong, 13 May 2013

*As at the date of this report, the Board comprises of Mr. Li Ge, Mr. SUN, Miguel and Mr. WANG He Dong as executive Directors, Mr. LIU Qing Chen, Ms. TAN Xiao Yan and Mr. ZHANG Chun Qiang as independent non-executive Directors.*