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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



INTERIM REPORT 2013

* 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.

INTERIM RESULTS (UNAUDITED)

The board of directors (the "Board") of FAVA International Holdings Limited (the "Company") is pleased to announce the unaudited consolidated interim financial statements of the Company and its subsidiaries (the "Group") for the three months and six months ended 30 June 2013 together with the comparative figures.

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (UNAUDITED)

For the three months and six months ended 30 June 2013

	Notes	Three months ended 30 June		Six months ended 30 June	
		2013 HK\$'000	2012 HK\$'000	2013 HK\$'000	2012 HK\$'000
Continuing operations					
Turnover	2	16,232	10,454	33,898	10,703
Cost of sales		(17,523)	(10,393)	(35,480)	(10,504)
Gross (loss)/profit		(1,291)	61	(1,582)	199
Other revenue		56	50	96	118
Other income		54	8,809	60	8,847
Gain on disposal of subsidiaries		31,273	–	31,273	–
Selling and distribution costs		(1,105)	(42)	(2,312)	(98)
Administrative expenses		(8,028)	(5,670)	(12,502)	(10,016)
Change in fair value of conversion options embedded in convertible notes		(5,589)	–	(5,589)	–
Profit/(loss) from operations	3	15,370	3,208	9,444	(950)
Finance costs		(3,911)	(1,448)	(7,852)	(1,449)
Profit/(loss) before taxation		11,459	1,760	1,592	(2,399)
Taxation	4	–	–	–	–
Profit/(loss) for the period from continuing operations		11,459	1,760	1,592	(2,399)
Discontinued operations					
Loss for the period from discontinued operations		(142)	(24,650)	(1,899)	(30,042)
Profit/(loss) for the period		11,317	(22,890)	(307)	(32,441)
Attributable to:					
Shareholders of the Company		14,232	(20,154)	4,535	(29,532)
Non-controlling interests		(2,915)	(2,736)	(4,842)	(2,909)
		11,317	(22,890)	(307)	(32,441)

	Notes	Three months ended 30 June		Six months ended 30 June	
		2013	2012	2013	2012
		HK\$'000	HK\$'000	HK\$'000	HK\$'000
Profit /(Loss) for the period		11,317	(22,890)	(307)	(32,441)
Other comprehensive income/ (loss) for the period, net of tax					
Exchange differences on translating foreign operations					
– Exchange differences arising during the period		3,705	(730)	4,963	1,199
– Reclassified adjustments relating to foreign operations disposed of during the period		(3,770)	–	(3,770)	–
		(65)	(730)	1,193	1,199
Total comprehensive income/(loss) for the period		11,252	(23,620)	886	(31,242)
Total comprehensive income/ (loss) attributable to:					
Owners of the Company		13,505	(20,661)	4,761	(28,110)
Non-controlling interests		(2,253)	(2,959)	(3,875)	(3,132)
		11,252	(23,620)	886	(31,242)
		HK cents	HK cents	HK cents	HK cents
Profit/(loss) per share					
From continuing and discontinued operations					
– basic and diluted	6	0.78	(1.15)	0.25	(1.68)
From continuing operations					
– basic and diluted	6	0.80	0.18	0.33	(0.05)

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Notes	30 June 2013 HK\$'000 (Unaudited)	31 December 2012 HK\$'000 (Audited)
NON-CURRENT ASSETS			
Property, plant and equipment		3,286	3,559
Intangible assets		85,996	85,996
		89,282	89,555
CURRENT ASSETS			
Inventories	8	239	138
Financial assets at fair value through profit or loss		2,055	3,129
Conversion options embedded in convertible notes		6,822	–
Trade receivables	9	819	315
Prepayments, deposits and other receivables		73,661	1,875
Cash and bank balances	10	1,555	5,352
Pledged bank deposits		28,240	28,240
		113,391	39,049
Assets classified as held for sale		–	249,123
		113,391	288,172
LESS: CURRENT LIABILITIES			
Trade payables	11	1,271	362
Other payables and accruals		7,787	35,005
Receipts in advance		594	670
Amount due to a director		7,021	11,043
Amount due to a shareholder		–	4,000
Obligations under finance lease – due within one year		24	24
Convertible notes – due within one year		27,942	34,981
		44,639	86,085
Liabilities directly associated with assets classified as held for sale		–	76,656
		44,639	162,741
NET CURRENT ASSETS		68,752	125,431
TOTAL ASSETS LESS CURRENT LIABILITIES		158,034	214,986

	Notes	30 June 2013 HK\$'000 (Unaudited)	31 December 2012 HK\$'000 (Audited)
LESS: NON-CURRENT LIABILITIES			
Obligations under finance lease – due after one year		38	51
Interest-bearing bond – due after one year		3,000	–
Convertible notes – due after one year		14,008	–
Deferred taxation		2,639	–
NET ASSETS		138,349	214,935
CAPITAL AND RESERVES			
Share capital	12	4,408	3,517
Reserves		144,144	174,223
Total equity attributable to owners of the Company		148,552	177,740
Non-controlling interests		(10,203)	37,195
Total equity		138,349	214,935

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (UNAUDITED)

	Share capital	Share premium	Contributed surplus	Share options reserve	Convertible notes reserve	Exchange reserve	Statutory reserves	Accumulated losses	Discontinued operations	Sub-total	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 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 period	-	-	-	-	-	-	-	(29,532)	-	(29,532)	(2,909)	(32,441)
Other comprehensive income for the period	-	-	-	-	-	1,422	-	-	-	1,422	(223)	1,199
Total comprehensive income/(loss) for the period	-	-	-	-	-	1,422	-	(29,532)	-	(28,110)	(3,132)	(31,242)
Additional non-controlling interest arising on disposal of interest in a subsidiary	-	-	-	-	-	-	-	(9,397)	-	(9,397)	54,397	45,000
At 30 June 2012	3,517	219,534	36,000	1,656	-	46,009	43,500	(123,321)	-	226,895	51,257	278,152
At 31 December 2012 and 1 January 2013	3,517	219,534	36,000	-	429	-	-	(171,123)	89,383	177,740	37,195	214,935
Profit/(loss) for the period	-	-	-	-	-	-	-	4,535	-	4,535	(4,842)	(307)
Other comprehensive income for the period	-	-	-	-	-	-	-	-	-	-	-	-
- Exchange differences arising during the period	-	-	-	-	-	226	-	-	3,770	3,996	967	4,963
- Reclassified adjustments relating to foreign operations disposed of during the period	-	-	-	-	-	-	-	-	(3,770)	(3,770)	-	(3,770)
Total comprehensive income/(loss) for the period	-	-	-	-	-	226	-	4,535	-	4,761	(3,875)	886
Disposal of subsidiaries	-	-	-	-	-	-	-	-	(89,383)	(89,383)	(43,523)	(132,906)
Derecognition upon modification of convertible notes	-	-	-	-	(472)	-	-	472	-	-	-	-
Recognition upon modification of convertible notes	-	-	-	-	2,228	-	-	-	-	2,228	-	2,228
Early redemption of convertible notes	-	-	-	-	(437)	-	-	437	-	-	-	-
Recognition of the equity component of convertible notes	-	-	-	-	42,006	-	-	-	-	42,006	-	42,006
Deferred taxation of convertible notes	-	-	-	-	(5,346)	-	-	-	-	(5,346)	-	(5,346)
Issue of shares upon conversion of convertible notes	891	33,985	-	-	(18,330)	-	-	-	-	16,546	-	16,546
At 30 June 2013	4,408	253,519	36,000	-	20,078	226	-	(165,679)	-	148,552	(10,203)	138,349

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS (UNAUDITED)

For the six months ended 30 June

	2013 HK\$'000	2012 HK\$'000
NET CASH (OUTFLOWS)/INFLOWS FROM OPERATING ACTIVITIES	(50,003)	102,994
NET CASH OUTFLOWS FROM INVESTING ACTIVITIES	(15,342)	(143,297)
NET CASH INFLOWS FROM FINANCING ACTIVITIES	47,642	20,000
NET (DECREASE) IN CASH AND CASH EQUIVALENTS	(17,703)	(20,303)
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD	19,258	50,416
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD	1,555	30,113
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS		
Cash and bank balances	1,555	30,113

Notes:

1. BASIS OF PREPARATION

The Group's unaudited interim results have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by Hong Kong Institute of Certified Public Accountants ("HKICPA"), including compliance with Hong Kong Accounting Standard 34 "Interim financial reporting", accounting principles generally accepted in Hong Kong and the applicable disclosures required by the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited (the "GEM Listing Rules") and by the Hong Kong Companies Ordinance.

These unaudited condensed consolidated financial statements have been prepared under the historical cost convention except for certain financial assets and liabilities.

The accounting policies adopted in preparing the unaudited condensed consolidated financial statements for the six months ended 30 June 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 allowance for returns and trade discounts, during the period.

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

	Three months ended 30 June		Six months ended 30 June	
	2013 HK\$'000	2012 HK\$'000	2013 HK\$'000	2012 HK\$'000
Continuing operations				
Provision of funeral services and sales of funeral related products	16,232	10,454	33,898	10,703
Discontinued operations				
Indirect retail of household products and others	26,106	63,533	55,340	99,383
	42,338	73,987	89,238	110,086

3. PROFIT/(LOSS) FROM OPERATIONS

The Group's profit/(loss) from operations is arrived at after charging:

	Three months ended 30 June		Six months ended 30 June	
	2013 HK\$'000 (Unaudited)	2012 HK\$'000 (Unaudited)	2013 HK\$'000 (Unaudited)	2012 HK\$'000 (Unaudited)
Cost of sales	39,791	68,793	82,545	99,267
Depreciation on property, plant and equipment	664	4,566	1,585	8,971
Amortisation of intangible assets	831	1,230	2,065	2,462

4. TAXATION

No provision for Hong Kong profits tax has been made as the Group has no assessable profit in Hong Kong for the six months ended 30 June 2013 (six months ended 30 June 2012: Nil).

No PRC enterprise income tax was charged for the six months ended 30 June 2013 as the PRC subsidiary of the Group have recorded loss (six months ended 30 June 2012: Nil).

Deferred tax is provided in full, using the liabilities method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the accounts.

The Group's deferred taxation for the six months ended 30 June 2013 amounted to approximately HK\$2,639,000 (six months ended 30 June 2012: Nil).

5. INTERIM DIVIDEND

No interim dividend has been paid or declared by the Company for the six months ended 30 June 2013 (six months ended 30 June 2012: Nil).

6. PROFIT/(LOSS) PER SHARE

As at 30 June 2013, the calculation of basic profit/(loss) per share from continuing and discontinued operations is based on the profit for the period attributable to owners of the Company of approximately HK\$4,535,000 (as at 30 June 2012: loss approximately HK\$29,532,000) and the weighted average 1,827,314,127 (as at 30 June 2012: 1,758,355,970) ordinary shares in issue during the period.

As at 30 June 2013, the calculation of basic profit/(loss) per share from continuing operations is based on the profit for the period attributable to owners of the Company of approximately HK\$5,959,000 (as at 30 June 2012: loss approximately HK\$944,000) and the weighted average 1,827,314,127 (as at 30 June 2012: 1,758,355,970) ordinary shares in issue during the period.

Diluted loss per share for both continuing and discontinued operations for the six months ended 30 June 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 30 June 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.

There was no diluting event existing during the six months ended 30 June 2012.

7. SEGMENT INFORMATION

The Group's reportable segments under HKFRS 8 are as follows:

- Provision of funeral services and sales of funeral related products

The following table presents revenue and results by the Group's operating segment for the six months ended 30 June 2013 and 2012 under review.

	Continuing operations	
	Provision of funeral services and sales of funeral related products	
	2013	2012
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Segment revenue		
Sales to external customers	33,898	10,703
Segment results	(1,582)	199
Interest income	84	118
Unallocated corporate revenue	31,345	8,847
Corporate and other unallocated expenses	(20,403)	(10,114)
Finance costs	(7,852)	(1,449)
Profit/(loss) before taxation	1,592	(2,399)
Taxation	-	-
Net profit/(loss) for the period	1,592	(2,399)

8. INVENTORIES

	As At 30 June 2013 HK\$'000 (Unaudited)	As At 31 December 2012 HK\$'000 (Audited)
Finished goods	239	138

9. TRADE RECEIVABLES

The average credit period on sales of goods is 30 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.

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

	As At 30 June 2013 HK\$'000 (Unaudited)	As At 31 December 2012 HK\$'000 (Audited)
0 – 30 days	819	315

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

10. CASH AND BANK BALANCES

	As At 30 June 2013 HK\$'000 (Unaudited)	As At 31 December 2012 HK\$'000 (Audited)
Cash and bank balances of continuing operations	1,555	5,352
Cash and bank balances included in a disposal group classified as held for sale	–	13,906
	1,555	19,258

At 30 June 2013, the cash and bank balances of the Group denominated in RMB amounted to approximately HK\$755,000 (as at 31 December 2012: approximately HK\$16,311,000). 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.

11. TRADE PAYABLES

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

	As At 30 June 2013 HK\$'000 (Unaudited)	As At 31 December 2012 HK\$'000 (Audited)
0 – 30 days	1,271	362

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

12. SHARE CAPITAL

ORDINARY SHARES

	Par Value HK\$	Number of shares '000	Shares capital HK\$'000
Authorised:			
At 31 December 2012	0.002	250,000,000	500,000
At 1 January 2013	0.002	250,000,000	500,000
At 30 June 2013 (Unaudited)	0.002	250,000,000	500,000
Issued and fully paid:			
At 31 December 2012	0.002	1,758,356	3,517
At 1 January 2013	0.002	1,758,356	3,517
Conversion of share (Note (i))	0.002	445,765	891
At 30 June 2013	0.002	2,204,121	4,408

Note:

- (i) On 23 May 2013, the Company issued 297,176,820 shares of HK\$0.002 each at a conversion price of HK\$0.0673 per conversion share and on 25 June 2013, the Company issued 148,588,410 shares of HK\$0.002 each at a conversion price of HK\$0.0673 per conversion share.

13. CONTINGENT LIABILITIES

The Group had no contingent liabilities at 30 June 2013.

14. MATERIAL RELATED PARTY TRANSACTIONS

The Group had no material related party transactions during the six months ended 30 June 2013 and 2012.

15. EVENTS AFTER THE REPORTING PERIOD

On 22 July 2013, the Company entered into a placing agreement with a placing agent to place up to 70,000,000 shares to not less than six share places at the placing price of HK\$0.0446. The net proceeds from the placement is approximately HK\$2.9 million which will be utilised by the Group as its working capital. The share placement has already been completed on 5 August 2013.

On 30 July 2013, the Company proposes to implement share consolidation on the basis that every ten issued and unissued shares of HK\$0.002 each will be consolidated into one consolidated share of HK\$0.02 each. The Company also proposes to change the board lot size for trading in the shares of the Company from 4,000 shares to 8,000 consolidated shares upon the share consolidation becoming effective.

MANAGEMENT DISCUSSION AND ANALYSIS

The board (the "Board") of the directors (the "Directors") of FAVA International Holdings Limited (the "Company") is pleased to report the audited consolidated interim results of the Company together with its subsidiaries (collectively referred to as the "Group") for the period ended 30 June 2013 (the "Period").

BUSINESS AND FINANCIAL REVIEW

The Group's reportable businesses during the Period are the funeral business and the household products business. From 1 June 2013, however, the Group has discontinued the household products business.

The Group's total operating revenue during the Period amounted to approximately HK\$89,238,000, representing a decrease of 18.94% as compared to the same period last year. The total profit amounted to approximately HK\$4,535,000, mainly attributable to recognition of special income of HK\$31,273,000 arising from disposal by the Group of its subgroup engaged in the household products business.

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\$33,898,000 and recorded a gross loss of HK\$1,582,000, because of the continued high costs of a funeral parlour (in particular the quarterly lease payment of HK\$13,950,000 payable to the Food and Environmental Hygiene Department in relation to Grand Peace Funeral Parlour), the total income generated from funeral business still can not come in par with the costs in current stage.

As most of the funds had been put in the operation of Grand Peace Funeral Parlour in Hung Hom, 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.) will be extended to later in future.

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 in the case of the costs (especially the government rents) remained at a high level, the Group's funeral business during the Period recorded a net loss of approximately HK\$ 7,010,000.

HOUSEHOLD PRODUCTS BUSINESS

The Group completed the disposal of 25% equity interests of its subgroup engaged in the household products business to an independent third party on 21 May 2012, and completed the disposal of the remaining 75% equity interests of its subgroup engaged in the household products business on 31 May 2013.

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 to provide additional funds for its daily operation.

During the Period, the Group's total sales revenue contributed by its household products business (from 1 January 2013 to 31 May 2013) amounted to approximately HK\$55,340,000, representing a decrease of 44.32% as compared against the same period last year. The household products business recorded a net loss of approximately HK\$1,895,000.

PROSPECTS

After selling the household products business, the Group mainly focuses on its funeral business in Hong Kong and Huidong.

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 early 2014, and Huidong County Huaqiao Cemetery will come into operation thereafter.

The cemetery is expected to generate revenue in the middle 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.

The transaction has been approved by shareholders of the Company at the special general meeting of the Company held on 27 May 2013. The transaction was completed on 31 May 2013.

Details of the transaction were set out in the Company’s announcements dated 6 March 2013, 27 May 2013, 31 May 2013 respectively 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 was 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 should 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 should 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) should 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 should give a written notice to EMAX for the same immediately and EMAX should 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 carries 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 should 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, 6 May 2013 and 13 May 2013.

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 transaction was approved by shareholders of the Company at the special general meeting of the Company held on 23 November 2012.

The completion of the Placing took place on 14 May 2013. The Convertible Notes in an aggregate amount of HK\$60,000,000 were actually placed by the Placing Agent and issued to not fewer than six Placers who are independent third parties.

Based on the initial Conversion Price of HK\$0.0673 per Conversion Share (which is subject to adjustment), a maximum of 891,530,460 Conversion Shares will be allotted and issued upon exercise of the conversion rights attaching to the Convertible Notes in full, representing approximately 50.70% of the existing issued share capital of the Company and approximately 33.64% of the issued share capital of the Company as enlarged by the issue of such Conversion Shares, assuming there is no other change in the existing shareholding of the Company.

For details, please refer to the announcements of the Company dated 17 October 2012, 23 November 2012, 9 April 2013, 22 April 2013 and 14 May 2013 respectively and the circular dated 8 November 2012.

As at 30 June 2013, 445,765,230 Conversion Shares has been allotted and issued upon conversion of an aggregated amount of HK\$30,000,000 Convertible Notes.

LIQUIDITY AND FINANCIAL RESOURCES

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 30 June 2013, cash and bank balances of the Group was approximately HK\$1,555,000 (as at 30 June 2012: approximately HK\$30,113,000).

As at 30 June 2013, the total borrowings of the Group amounted to approximately HK\$45,013,000 (as at 30 June 2012: approximately HK\$20,088,000), representing (i) obligation under finance leases of approximately HK\$63,000 in total, the weighted average effective interest 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\$27,942,000, the effective interest rate is 42% per annum and liability component of non-interest bearing convertible notes of approximately HK\$14,008,000; and (iii) unsecured bonds of HK\$3,000,000, the effective interest rate is 8% per annum.

EMPLOYEES INFORMATION

As at 30 June 2013, the Group had employed 54 staff in Hong Kong and 1 staff in PRC (as at 30 June 2012: 64 staff in Hong Kong and 1,143 staff 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 six months ended 30 June 2013 amounted to approximately HK\$10,496,000 (2012: approximately HK\$12,506,000).

The Group did not experience any significant labour dispute 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.

GEARING RATIO

As at 30 June 2013, the Group's gearing ratio was approximately 30.3% representing a percentage of the total borrowings over shareholders' equity (as at 30 June 2012: approximately 4.59%).

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 30 June 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 six months ended 30 June 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 to all Directors and the Company was not aware of any non-compliance with the required standard of dealings and its code of conduct regarding securities transactions by directors.

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

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

As at 30 June 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

Number of shares held, capacity and nature of interest

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	23.24%

Note:

- (1) The percentage is calculated by dividing the number of shares interested or deemed to be interested by the existing 2,204,121,200 issued shares as at 30 June 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 30 June 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 30 June 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

Name	Nature and capacity of interest	Number of shares held	Approximate percentage of interest (Note 1)
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Substantial Shareholder

True Allied Assets Limited	Beneficial owner	351,598,000	15.95%
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Notes:

- (1) The percentage is calculated by dividing the number of shares interested or deemed to be interested by the existing 2,204,121,200 issued shares as at 30 June 2013.

Save as disclosed above, as at 30 June 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 and pledged bank deposits, the Group did not have any other charge on its assets as at 30 June 2013 (as at 30 June 2012: Save as the finance lease contract for the Group's office equipment, pledged bank deposits and secured short-term other loan, 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 30 June 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 interim results announcement and report for the six months ended 30 June 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 six months ended 30 June 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 six months ended 30 June 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 six months ended 30 June 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 six months ended 30 June 2013.

RE-ELECTION OF DIRECTORS

At the annual general meeting of the Company held on 7 May 2013, all the incumbent Directors were re-elected as Directors by the shareholders of the Company.

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

Hong Kong, 9 August 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.