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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



**THIRD QUARTERLY
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 enquires, confirm that to the best of their knowledge and belief the information contained in this report is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this report misleading.

THIRD QUARTERLY RESULTS (UNAUDITED)

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

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (UNAUDITED)

For the three months and nine months ended 30 September 2013

	Notes	Three months ended 30 September		Nine months ended 30 September	
		2013 HK\$'000	2012 HK\$'000	2013 HK\$'000	2012 HK\$'000
Continuing operations					
Turnover	2	15,638	13,569	49,536	24,272
Cost of sales		(16,532)	(15,792)	(52,012)	(26,296)
Gross loss		(894)	(2,223)	(2,476)	(2,024)
Other revenue		31	55	127	173
Other income		172	5	232	8,852
Gain on disposal of subsidiaries		–	–	31,273	–
Selling and distribution costs		(1,407)	(1,274)	(3,719)	(2,452)
Administrative expenses		(6,372)	(5,015)	(18,874)	(13,951)
Change in fair value of conversion options embedded in convertible notes		(262)	–	(5,851)	–
(Loss)/profit from operations		(8,732)	(8,452)	712	(9,402)
Finance costs		(3,775)	(2,535)	(11,627)	(3,984)
Loss before taxation		(12,507)	(10,987)	(10,915)	(13,386)
Taxation	3	–	–	–	–
Loss for the period from continuing operations		(12,507)	(10,987)	(10,915)	(13,386)
Discontinued operations					
Loss for the period from discontinued operations		–	(14,658)	(1,899)	(44,700)
Loss for the period		(12,507)	(25,645)	(12,814)	(58,086)
Loss attributable to:					
Owners of the Company		(10,588)	(19,707)	(6,053)	(49,239)
Non-controlling interests		(1,919)	(5,938)	(6,761)	(8,847)
		(12,507)	(25,645)	(12,814)	(58,086)

	Notes	Three months ended 30 September		Nine months ended 30 September	
		2013 HK\$'000	2012 HK\$'000	2013 HK\$'000	2012 HK\$'000
Loss for the period		(12,507)	(25,645)	(12,814)	(58,086)
Other comprehensive income/(loss) for the period, net of tax					
Exchange differences on translating foreign operations					
– Exchange differences arising during the period		37	(414)	5,000	785
– Reclassified adjustments relating to foreign operations disposed of during the period		–	–	(3,770)	–
Total comprehensive loss for the period		(12,470)	(26,059)	(11,584)	(57,301)
Total comprehensive loss attributable to:					
Owners of the Company		(10,551)	(20,121)	(5,790)	(48,231)
Non-controlling interests		(1,919)	(5,938)	(5,794)	(9,070)
		(12,470)	(26,059)	(11,584)	(57,301)
Loss per share		HK cents	HK cents	HK cents	HK cents
From continuing and discontinued operations					
– basic and diluted	5	(5.38)	(11.2)	(3.07)	(27.5)
From continuing operations					
– basic and diluted	5	(5.38)	(4.96)	(2.35)	(5.49)

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (UNAUDITED)

	Share capital HK\$'000	Share premium HK\$'000	Contributed surplus HK\$'000	Share options reserve HK\$'000	Convertible notes reserve HK\$'000	Exchange reserves HK\$'000	Statutory reserves HK\$'000	Accumulated losses HK\$'000	Discontinued operations HK\$'000	Subtotal HK\$'000	Non-controlling interest HK\$'000	Total equity 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	-	-	-	-	-	-	-	(49,239)	-	(49,239)	(8,847)	(58,086)
Other comprehensive income for the period	-	-	-	-	-	1,008	-	-	-	1,008	(223)	785
Total comprehensive income/(loss) for the period	-	-	-	-	-	1,008	-	(49,239)	-	(48,231)	(9,070)	(57,301)
Additional non-controlling interest arising on disposal of interest in a subsidiary	-	-	-	-	-	-	-	(9,397)	-	(9,397)	54,397	45,000
Issue of convertible bond	-	-	-	-	429	-	-	-	-	429	-	429
At 30 September 2012	3,517	219,534	36,000	1,656	429	45,595	43,500	(143,028)	-	207,203	45,319	252,522
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
Loss for the period	-	-	-	-	-	-	-	(6,053)	-	(6,053)	(6,761)	(12,814)
Other comprehensive income for the period	-	-	-	-	-	263	-	-	3,770	4,033	967	5,000
- Exchange differences arising during the period	-	-	-	-	-	263	-	-	3,770	4,033	967	5,000
- Reclassified adjustments relating to foreign operations disposed of during the period	-	-	-	-	-	-	-	-	(3,770)	(3,770)	-	(3,770)
Total comprehensive income/(loss) for the period	-	-	-	-	-	263	-	(6,053)	-	(5,790)	(5,794)	(11,584)
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	-	-	-	-	(716)	-	-	716	-	-	-	-
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
Issue of shares	140	2,857	-	-	-	-	-	-	-	2,997	-	2,997
At 30 September 2013	4,548	256,376	36,000	-	19,799	263	-	(175,988)	-	140,998	(12,122)	128,876

Notes:

1. BASIS OF PREPARATION

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

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

The accounting policies adopted in preparing the unaudited condensed consolidated financial statements for the nine months ended 30 September 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 September		Nine months ended 30 September	
	2013 HK\$'000 (Unaudited)	2012 HK\$'000 (Unaudited)	2013 HK\$'000 (Unaudited)	2012 HK\$'000 (Unaudited)
Continuing operations				
Provision of funeral services and sales of funeral related products	15,638	13,569	49,536	24,272
Discontinued operations				
Indirect retail of household products and others	–	29,401	55,340	128,784
	15,638	42,970	104,876	153,056

3. TAXATION

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

No PRC enterprise income tax was charged for the nine months ended 30 September 2013 as the PRC subsidiary of the Group have recorded loss (nine months ended 30 September 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 nine months ended 30 September 2013 amounted to approximately HK\$2,571,000 (nine months ended 30 September 2012: Nil).

4. INTERIM DIVIDEND

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

5. LOSS PER SHARE

As at 30 September 2013, 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\$6,053,000 (as at 30 September 2012: loss of approximately HK\$49,239,000) and the weighted average 196,865,570 (as at 30 September 2012: 175,835,597) ordinary shares in issue during the period.

As at 30 September 2013, 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\$4,629,000 (as at 30 September 2012: loss of approximately HK\$9,660,000) and the weighted average 196,865,570 (as at 30 September 2012: 175,835,597) ordinary shares in issue during the period.

Diluted loss per share for both continuing and discontinued operations for the nine months ended 30 September 2013 was the same as the basic loss per share. The Company's outstanding convertible notes and convertible bonds were not included in the calculation of diluted loss per share because the effect of the Company's outstanding convertible notes and convertible bonds were anti-dilutive.

Diluted loss per share for both continuing and discontinued operations for the nine months ended 30 September 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 nine months ended 30 September 2013 and 2012.

6. COMPARATIVE

Certain comparative figures have been reclassified to conform to the presentation of the Group's unaudited third quarterly results.

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 unaudited consolidated third quarterly results of the Company together with its subsidiaries (collectively referred to as the “Group”) for the nine months ended 30 September 2013 (the “Period”).

BUSINESS AND FINANCIAL REVIEW

The Group’s reportable businesses during the Period are the funeral business and the household products business.

The Group’s total operating revenue during the Period amounted to approximately HK\$104,876,000, representing a decrease of 31.48% as compared to the same period last year. This decrease resulted from the discontinuation of its household product business with effect from 1 June 2013. During the Period, the total loss amounted to approximately HK\$6,053,000 after the recognition of HK\$31,273,000 special income arising from disposal by the Group of its 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\$49,536,000 and recorded a gross loss of approximately HK\$2,476,000, because of the continued high costs of a funeral parlour (in particular the quarterly rental 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 cannot come in par with the costs in current stage.

As currently most of the Group’s current funds had been put to sustain the operation of Grand Peace Funeral Parlour in Hung Hom, along with the late payment for the consideration derived from the household products business, the Group’s remaining capital is insufficient to support the preliminary investment in Huidong County Huaqiao Cemetery (including landscaping, the construction of pavements and canals in the cemetery, etc.). Thus, it is expected that the preliminary investment in Huaqiao cemetery will be postponed to the beginning of 2014.

Just entering into the funeral service industry in the second quarter last year, the Group had not yet fully spread its sales network so that the funeral parlour’s facilities had not been fully utilized. As the costs (especially the rental payment to the Food and Environmental Hygiene Department) remained at a high level, the Group’s funeral business during the Period recorded a net loss of approximately HK\$10,806,000.

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 to another independent third party on 31 May 2013. As at the date hereof, the Group discontinued all of its household products business.

The Group sold its household products business to avoid continuing losses, so as to reduce 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, and its net loss was approximately HK\$1,899,000.

PROSPECTS

After disposal of 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. It is expected that Huidong County Huaqiao Cemetery will be put into operation upon the completion of the relevant constructions at the beginning of 2014 and that income will be generated in the middle of 2014.

In respect of the funeral business in Hong Kong, the Group will strengthen personnel training, promotion and advertising investment 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 the owners' equity and spread business risks.

VERY SUBSTANTIAL DISPOSAL

On 4 February 2013, General Asia Holdings Limited (“General Asia”), a direct wholly-owned subsidiary of the Company, entered into a sale and purchase agreement with Future Step Development Limited (“Future Step”), an independent third party, and Ms. Zhang Zongying (“Ms. Zhang”) pursuant to which 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.

On 27 August 2013, General Asia, Future Step and Ms. Zhang entered into a supplemental agreement to reschedule the timetable of the consideration settlement.

Pursuant to the supplemental agreement, the timetable of the consideration settlement was revised as follows:

1. HK\$21 million will be paid on or before 31 December 2013;
2. HK\$21 million will be paid on or before 31 March 2014; and
3. The balance of HK\$28 million will be paid on or before 30 June 2014.

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 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, i.e. 6 September 2012, 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. Neither the Company nor Sun Finance shall have any right to redeem any portion of the outstanding Convertible Notes prior to its maturity.

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 (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.

The amendments to terms and conditions of the Convertible Notes contemplated under the supplemental agreement are summarized as follows:

1. the maturity date of the Convertible Notes is extended from the existing maturity date of 5 May 2013 to the date falling eleven months from the date of issue of the Convertible Notes; or subject to the further agreement(s) between the Noteholder and the Company, on the date falling fourteen months from the date of issue of the Convertible Notes, i.e. 5 November 2013; and
2. 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.

Save for the amendments under the supplemental agreement as disclosed above, all other principal terms and conditions under the Convertible Notes remain unchanged.

On 6 May 2013 and 16 August 2013, the Company redeemed HK\$7,000,000 and HK\$4,470,000 of the Convertible Notes respectively. Upon redemption of the Convertible Notes in the principal amounts of HK\$7,000,000 and HK\$4,470,000, the aggregate outstanding principal amount of the Convertible Notes amounted to HK\$23,530,000.

As at 30 September 2013, the aggregate outstanding principal amount of the Convertible Notes amounted to HK\$23,530,000, based on the initial conversion price of HK\$1 per conversion share (as adjusted to reflect the share consolidation effective on 29 August 2013), a maximum of 23,530,000 conversion shares will be allotted and issued upon exercise of the conversion rights attaching to it, representing approximately 10.35% of the issued shares of the Company as at 30 September 2013.

For details, please refer to the announcements of the Company dated 3 September 2012, 6 May 2013 and 13 May 2013.

PLACING OF CONVERTIBLE BONDS

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 bonds of ("Convertible Bonds") up to an aggregate principal amount of HK\$100,000,000. Assuming the Convertible Bonds are placed in full, the maximum gross proceeds from the placing of the Convertible Bonds is HK\$100,000,000 and the maximum net proceeds from the placing of the Convertible Bonds (after deducting related expenses) are estimated to be approximately HK\$98.45 million. The net proceeds from the Convertible Bonds 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 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 Bonds in an aggregate amount of HK\$60,000,000 were actually placed by the Placing Agent and issued to not fewer than six Placees who are independent third parties. The estimated net proceeds from the issue of the Convertible Bonds, after deduction of expenses, are approximately HK\$58.9 million. The net proceeds from the Convertible Bonds have been used (i) as to approximately HK\$15.6 million for repayment of loan; and (ii) as to approximately HK\$43.3 million for the general working capital of the Group.

On 23 May 2013 and 25 June 2013, 297,176,820 and 148,588,410 conversion shares were allotted and issued upon exercise of the conversion rights attaching to the Convertible Bonds in the principal amounts of HK\$20,000,000 and HK\$10,000,000 respectively.

As at 30 September 2013, the aggregate outstanding principal amount of the Convertible Bonds amounted to HK\$30,000,000, based on the initial conversion price of HK\$0.673 per conversion share (as adjusted to reflect the share consolidation effective on 29 August 2013), a maximum of 44,576,523 conversion shares will be allotted and issued upon exercise of the conversion rights attaching to it, representing approximately 19.60% of the issued shares of the Company as at 30 September 2013.

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.

PROPOSED OPEN OFFER

On 17 September 2013, the Company and Cheong Lee Securities Limited entered into an underwriting agreement in relation to the underwriting arrangements in respect of the proposed open offer (the "Open Offer").

The Open Offer will raise not less than approximately HK\$90.96 million but not more than approximately HK\$118.21 million before expenses by issuing not less than 909,648,480 offer shares and not more than 1,182,074,572 offer shares to the qualifying shareholders at the subscription price of HK\$0.10 per offer share on the basis of 4 offer shares for every 1 share held on 29 October 2013 (later being adjusted as 7 November 2013).

The estimated net proceeds of the Open Offer will be not less than approximately HK\$86.66 million and not more than approximately HK\$112.95 million. The Company intends to apply the net proceeds from the Open Offer as to up to HK\$43.53 million for repayment of the Convertible Notes and Convertible Bonds and the balance for general working capital of the Group's funeral business in Hong Kong and PRC.

The Open Offer is subject to the approval at the special general meeting of the Company to be held on 31 October 2013.

For details, please refer to the announcements of the Company dated 17 September 2013 and 3 October 2013 respectively and the circular dated 15 October 2013.

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 September 2013, cash and bank balances of the Group was approximately HK\$4,110,000 (as at 30 September 2012: approximately HK\$18,995,000).

As at 30 September 2013, total borrowing of the Group amounted to approximately HK\$50,038,000 (as at 30 September 2012: approximately HK\$81,000), representing (i) obligations under finance lease of approximately HK\$120,000 in total, the weighted average effective interest rate on finance lease was approximately 2% per annum and the term was five years; (ii) liability component of convertible notes measured at amortised cost of approximately HK\$23,500,000, the effective interest rate is approximately 43.60% per annum and liability component of convertible bonds measured at amortised cost of approximately HK\$14,418,000, the effective interest rate is approximately 11.73% and (iii) unsecured bonds of HK\$8,000,000, the effective interest rate is 8% per annum; and (iv) unsecured other loans HK\$4,000,000, of which the effective interest rate of HK\$2,000,000 is 4% per month and the effective interest rate of the other HK\$2,000,000 is 3% per month.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Other than the share option scheme adopted on 9 December 2010, during the period, 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 September 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 nine months ended 30 September 2013, the Company has 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 has 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 September 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\$0.02 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)			
Mr. Li Ge	16,054,800	–	35,159,800		51,214,600	22.52%

Notes:

- (1) The percentage is calculated by dividing the number of shares interested or deemed to be interested by the existing 227,412,120 issued shares as at 30 September 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 September 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 September 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\$0.02 each of the Company

Name	Notes	Nature and capacity of interest	Number of ordinary shares held	Number of underlying shares	Approximate percentage of interest
Substantial Shareholder					
True Allied Assets Limited	1	Beneficial owner	35,159,800	–	15.46%
Other Shareholders					
Sun Finance Company Limited	1, 2	Beneficial owner	–	23,530,000	10.35%
Eminent Crest Holdings Limited	1, 3	Controlled corporation	–	23,530,000	10.35%
Peak Stand Holdings Limited	1, 4	Controlled corporation	–	23,530,000	10.35%
Sun Finance Holdings Limited	1, 5	Controlled corporation	–	23,530,000	10.35%
Cheng Family Investment Holdings Company Limited	1, 6	Controlled corporation	–	23,530,000	10.35%
Cheng Ting Kong	1, 7	Controlled corporation	–	23,530,000	10.35%
Chau's Holdings Company Limited	1, 8	Controlled corporation	–	23,530,000	10.35%
Chau Cheek Wa	1, 9	Controlled corporation	–	23,530,000	10.35%
Chinacorp International Consultants Ltd	1, 10	Beneficial owner	–	14,858,841	6.53%
UA Success Limited	1, 11	Beneficial owner	–	14,858,841	6.53%
Wang Chao	1, 12	Beneficial owner	–	14,858,841	6.53%
Cheong Lee Securities Limited	13, 14	Beneficial owner	–	802,074,572	54.28%
CL Group (Holdings) Limited	13, 15	Controlled corporation	–	802,074,572	54.28%
Au Suet Ming Clarea	13, 16	Controlled corporation	–	802,074,572	54.28%
VC Brokerage Limited	13, 17	Beneficial owner	–	100,000,000	6.77%
VC Financial Group Limited	13, 18	Controlled corporation	–	100,000,000	6.77%
Value Convergence Holdings Limited	13, 19	Controlled corporation	–	100,000,000	6.77%
Flame Capital Limited	13, 20	Beneficial owner	–	100,000,000	6.77%
Chung Oi Ling Stella	13, 21	Controlled corporation	–	100,000,000	6.77%

Notes:

- (1) The percentage is calculated by dividing the number of shares interested or deemed to be interested by the existing 227,412,120 issued shares as at 30 September 2013;
- (2) The 23,530,000 shares are the maximum number of conversion shares to be allotted and issued upon exercise of the conversion rights attached to the outstanding principal amount of the Convertible Notes held by Sun Finance Company Limited as at 30 September 2013;
- (3) Eminent Crest Holdings Limited is interested by virtue of its 38% beneficial interest in Sun Finance Company Limited;
- (4) Peak Stand Holdings Limited is interested by virtue of its 58% beneficial interest in Sun Finance Company Limited;
- (5) Sun Finance Holdings Limited is interested by virtue of its 100% beneficial interest in Eminent Crest Holdings Limited and its 100% beneficial interest in Peak Stand Holdings Limited;
- (6) Cheng Family Investment Holdings Company Limited is interested by virtue of its 45% beneficial interest in Sun Finance Holdings Limited;
- (7) Cheng Ting Kong is interested by virtue of its 100% beneficial interest in Cheng Family Investment Holdings Company Limited;
- (8) Chau's Holdings Company Limited is interested by virtue of its 45% beneficial interest in Sun Finance Holdings Limited;
- (9) Chau Chek Wa is interested by virtue of its 100% beneficial interest in Chau's Holdings Company Limited;
- (10) The 14,858,841 shares are the maximum number of conversion shares to be allotted and issued upon exercise of the conversion rights attached to the outstanding principal amount of the Convertible Bonds held by Chinacorp International Consultants Ltd as at 30 September 2013;
- (11) The 14,858,841 shares are the maximum number of conversion shares to be allotted and issued upon exercise of the conversion rights attached to the outstanding principal amount of the Convertible Bonds held by UA Success Limited as at 30 September 2013;
- (12) The 14,858,841 shares are the maximum number of conversion shares to be allotted and issued upon exercise of the conversion rights attached to the outstanding principal amount of the Convertible Bonds held by Mr. Wang Chao as at 30 September 2013.

- (13) The percentage is calculated by dividing the number of shares interested or deemed to be interested by the expected maximum enlarged 1,477,593,215 shares after the proposed open offer (four offer shares for every one share);
- (14) Cheong Lee Securities Limited is interested pursuant to the underwriting agreement dated 17 September 2013 entered into between the Company and Cheong Lee Securities Limited in relation to the underwriting arrangement in respect of the proposed open offer (four offer shares for every one share);
- (15) CL Group (Holdings) Limited is interested by virtue of its 100% beneficial interest in Cheong Lee Securities Limited;
- (16) Au Suet Ming Clarea is interested by virtue of her 75% beneficial interest in CL Group (Holdings) Limited;
- (17) VC Brokerage Limited is interested as one of the sub-underwriters in relation to the proposed open offer (four offer shares for every one share);
- (18) VC Financial Group Limited is interested by virtue of its 100% beneficial interest in VC Brokerage Limited;
- (19) Value Convergence Holdings Limited is interested by virtue of its 100% beneficial interest in VC Brokerage Limited;
- (20) Flame Capital Limited is interested as one of the sub-underwriters in relation to the proposed open offer (four offer shares for every one share);
- (21) Chung Oi Ling Stella is interested by virtue of her 100% beneficial interest in Flame Capital Limited.

Save as disclosed above, as at 30 September 2013, the Directors are not aware of any other persons, other than the Directors and chief executives of the Company, whose interests are set out in the section headed "Directors' and chief executives' interests and short positions in shares, underlying shares and debentures" above, had interests or short positions in the shares or underlying shares of the Company that was required to be recorded pursuant to Section 336 to the SFO.

CHARGE ON GROUP'S ASSETS

Save as the finance lease contract for the Group's office equipment and the pledged bank deposits, the Group did not have any other charge on any of its assets as at 30 September 2013 (as at 30 September 2012: save as the finance lease contract for the Group's office equipment and the pledged bank deposits, the Group did not have any other charge on any of its assets).

FOREIGN CURRENCY RISK

As most of the Group's transactions are denominated in Hong Kong dollars and Renminbi, the Directors believe that the Group's exposure to exchange fluctuation was immaterial 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 30 September 2013 (at 30 September 2012 : Nil).

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 September 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 third quarterly results announcement and report for the nine months ended 30 September 2013 and provided advice and recommendations to the Board. After the review of the financial statements, the members of the Audit Committee were of the opinion that such statements comply with the applicable accounting standards, the GEM Listing Rules and other applicable laws and regulations and that adequate disclosure had been made.

CORPORATE GOVERNANCE PRACTICES

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

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

The Group deviates from Code Provision A.2.1 of the Corporate Governance Code set out in Appendix 15 of the GEM Listing Rules (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 nine months ended 30 September 2013, the Company complied with the code provisions of the CG 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 maximum number of shares available issue upon the exercise of the options under the Share Option Scheme is 17,169,559 shares, representing 10% of 171,695,597 shares, the total issued shares of the Company at the date on which the Share Option Scheme was adopted (as adjusted to reflect the share consolidation effective on 29 August 2013). The maximum number of shares in respect of which options may be granted under the Share Option Scheme and other schemes of the Company is 68,223,636 shares, representing 30% of 227,412,120 shares, the total issued shares of the Company as at 30 September 2013.

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 during the nine months ended 30 September 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

During the nine months ended 30 September 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 controlling shareholders of the Company or their respective associates (as defined in the GEM Listing Rules) has any interest in any business which competed or may compete with the business of the Group during the nine months ended 30 September 2013.

By Order of the Board
FAVA International Holdings Limited
Li Ge
Chairman

Hong Kong, 25 October 2013

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