



INTERIM  
REPORT  
2011



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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



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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.*



## 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 2011 together with the comparative figures.

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

For the three months and six months ended 30 June 2011

	Notes	Three months ended 30 June		Six months ended 30 June	
		2011 HK\$'000	2010 HK\$'000	2011 HK\$'000	2010 HK\$'000
Turnover	2	<b>51,377</b>	49,990	<b>84,451</b>	79,527
Cost of sales		<b>(40,585)</b>	(39,696)	<b>(67,240)</b>	(64,147)
Gross profit		<b>10,792</b>	10,294	<b>17,211</b>	15,380
Other revenue		<b>60</b>	392	<b>124</b>	965
Other income		<b>926</b>	711	<b>1,275</b>	3,064
Selling and distribution costs		<b>(3,607)</b>	(3,434)	<b>(7,204)</b>	(6,831)
Administrative expenses		<b>(9,619)</b>	(8,123)	<b>(17,366)</b>	(15,418)
Other operating expenses		<b>(1)</b>	(229)	<b>(60)</b>	(1,153)
Loss from operations	3	<b>(1,449)</b>	(389)	<b>(6,020)</b>	(3,993)
Finance costs		<b>(1)</b>	(1)	<b>(2)</b>	(2)
Loss before taxation		<b>(1,450)</b>	(390)	<b>(6,022)</b>	(3,995)
Taxation	4	<b>–</b>	–	<b>–</b>	–
Net loss for the period		<b>(1,450)</b>	(390)	<b>(6,022)</b>	(3,995)
Interim dividend	5	<b>–</b>	–	<b>–</b>	–
Other comprehensive income for the period, net of tax					
Exchange differences on translating foreign operations		<b>3,521</b>	3,942	<b>5,746</b>	4,339
Total comprehensive income/(loss) for the period		<b>2,071</b>	3,552	<b>(276)</b>	344
		<b>HK cents</b>	HK cents	<b>HK cents</b>	HK cents
Loss per share – basic and diluted	6	<b>(0.08)</b>	(0.03)	<b>(0.34)</b>	(0.29)

## CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Notes	<b>30 June 2011 HK\$'000 (Unaudited)</b>	31 December 2010 HK\$'000 (Audited)
<b>NON-CURRENT ASSETS</b>			
Property, plant and equipment		<b>84,507</b>	91,609
Intangible assets		<b>1,204</b>	2,359
		<b>85,711</b>	93,968
<b>CURRENT ASSETS</b>			
Inventories	8	<b>117,180</b>	87,477
Trade receivables	9	<b>56,635</b>	44,985
Prepayments, deposits and other receivables		<b>91,624</b>	138,273
Cash and bank balances	10	<b>68,622</b>	25,527
		<b>334,061</b>	296,262
<b>LESS: CURRENT LIABILITIES</b>			
Trade payables	11	<b>41,440</b>	32,754
Other payables and accruals		<b>13,815</b>	5,639
Receipts in advance		<b>40,137</b>	29,210
Amount due to a director		<b>5</b>	2
Amount due to a shareholder		<b>10,000</b>	10,000
Obligations under finance lease – due within one year		<b>15</b>	15
Income tax payable		<b>6,666</b>	6,529
		<b>112,078</b>	84,149
<b>NET CURRENT ASSETS</b>		<b>221,983</b>	212,113
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		<b>307,694</b>	306,801
<b>LESS: NON-CURRENT LIABILITIES</b>			
Obligations under finance lease – due after one year		<b>4</b>	11
<b>NET ASSETS</b>		<b>307,690</b>	306,070
<b>CAPITAL AND RESERVES</b>			
Share Capital	12	<b>3,517</b>	3,489
Reserves		<b>304,173</b>	302,581
<b>Total equity attributable to owners of the Company</b>		<b>307,690</b>	306,070



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

	Share capital HK\$'000	Share premium HK\$'000	Contributed surplus HK\$'000	(Accumulated losses) HK\$'000	Share options reserve HK\$'000	Exchange reserve HK\$'000	Statutory reserves HK\$'000	Total equity HK\$'000
At 31 December 2009 and 1 January 2010	2,769	169,277	36,000	(945)	-	36,560	41,481	285,142
Loss for the period	-	-	-	(3,995)	-	-	-	(3,995)
Other comprehensive income for the period	-	-	-	-	-	4,339	-	4,339
Total comprehensive (loss)/ income for the period	-	-	-	(3,995)	-	4,339	-	344
Issue of shares upon exercise of share options	28	-	-	-	-	-	-	28
Premium arising from issue of shares upon exercise of share options	-	1,868	-	-	-	-	-	1,868
At 30 June 2010	2,797	171,145	36,000	(4,940)	-	40,899	41,481	287,382
At 31 December 2010 and 1 January 2011	3,489	216,838	36,000	(32,562)	3,174	35,631	43,500	306,070
Loss for the period	-	-	-	(6,022)	-	-	-	(6,022)
Other comprehensive income for the period	-	-	-	-	-	5,746	-	5,746
Total comprehensive (expense)/ Income for the period	-	-	-	(6,022)	-	5,746	-	(276)
Issue of shares upon exercise of share options	28	-	-	-	(828)	-	-	(800)
Premium arising from issue of shares upon exercise of share options	-	2,696	-	-	-	-	-	2,696
At 30 June 2011	3,517	219,534	36,000	(38,584)	2,346	41,377	43,500	307,690



## CONDENSED CONSOLIDATED STATEMENT OF CASH FLOW (UNAUDITED)

For the six months ended 30 June

	<b>2011</b> <b>HK\$'000</b>	2010 HK\$'000
NET CASH INFLOWS/(OUTFLOWS) FROM OPERATING ACTIVITIES	<b>40,220</b>	(13,983)
NET CASH INFLOWS FROM INVESTING ACTIVITIES	<b>969</b>	4,348
NET CASH INFLOWS FROM FINANCING ACTIVITIES	<b>1,906</b>	1,896
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	<b>43,095</b>	(7,739)
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE PERIOD	<b>25,527</b>	23,531
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD	<b>68,622</b>	15,792
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS		
Cash and bank balances	<b>68,622</b>	15,792





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 financial statements have been prepared under the historical cost convention.

The accounting policies adopted in preparing the unaudited condensed consolidated financial statements for the six months ended 30 June 2011 are consistent with those adopted in the annual report of the Company for the year ended 31 December 2010.

## 2. TURNOVER

The Group's turnover represents the income received from the net invoiced value of household products manufactured and sold, after allowance for returns and trade discounts where applicable. An analysis of the Group's turnover is as follows:

	Three months ended 30 June		Six months ended 30 June	
	2011 HK\$'000	2010 HK\$'000	2011 HK\$'000	2010 HK\$'000
Manufacture and sales of household products	<u>51,377</u>	<u>49,990</u>	<u>84,451</u>	<u>79,527</u>



### 3. LOSS FROM OPERATIONS

The Group's loss from operations is arrived at after charging:

	Three months ended 30 June		six months ended 30 June	
	2011 HK\$'000 (Unaudited)	2010 HK\$'000 (Unaudited)	2011 HK\$000 (Unaudited)	2010 HK\$'000 (Unaudited)
Cost of sales	40,585	39,696	67,240	64,147
Depreciation on property, plant and equipment	4,602	4,225	9,160	9,139
Amortisation of intangible assets	599	902	1,192	1,899

### 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 2011 (six months ended 30 June 2010: Nil).

The PRC enterprise income tax ("EIT") represents tax charges on the assessable profit of the PRC subsidiary of the Group at the prevailing tax rates applicable. The PRC subsidiary of the Group, Langfang Huari Hengyu Home Co. Limited\* (廊坊華日恒宇家居有限公司) is categorised as a foreign investment enterprise and is entitled to preferential tax treatments ("Preferential Tax treatments") including full exemption from EIT for two years starting from its first profit-making year following by a 50% reduction for the next consecutive three years, and 2007 is its first profit-making year.

No EIT was charged for the six months ended 30 June 2011 as the PRC subsidiary of the Group has recorded loss (six months ended 30 June 2010: Nil).

There was no significant unprovided deferred taxation for the six months ended 30 June 2011 (six months ended 30 June 2010: Nil).

Deferred tax had not been provided as there were no significant temporary differences at the period-end date (six months ended 30 June 2010: Nil).

### 5. INTERIM DIVIDEND

No interim dividend has been paid or declared by the Company for the six months ended 30 June 2011 (six months ended 30 June 2010: Nil).





## 6. LOSS PER SHARE

The calculation of basic loss per share is based on the loss attributable to owners of the Company of approximately HK\$6,022,000 (2010: approximately HK\$3,995,000) and the weighted average 1,750,121,716 (2010: 1,387,011,020) ordinary shares in issue during the period.

Diluted loss per share for the six months ended 30 June 2011 has not been shown as the exercised or outstanding share options of the Company during the period had an anti-diluted effect on the basic loss per share for the period.

There was no diluting event existed during the six months ended 30 June 2011 and 2010.

## 7. SEGMENT INFORMATION

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

- Direct retail of household products
- Indirect retail of household products and others

The following table presents revenue and results by the Group's operating segment for the six months ended 30 June 2011 and 2010 under review.

	Direct retail of household products		Indirect retail of household products and others		Total	
	2011 HK\$'000 (Unaudited)	2010 HK\$'000 (Unaudited)	2011 HK\$'000 (Unaudited)	2010 HK\$'000 (Unaudited)	2011 HK\$'000 (Unaudited)	2010 HK\$'000 (Unaudited)
Segment revenue						
Sales to external customers	<b>10,660</b>	8,367	<b>73,791</b>	71,160	<b>84,451</b>	79,527
Segment results	<b>3,765</b>	2,780	<b>13,446</b>	12,600	<b>17,211</b>	15,380
Interest income and unallocated corporate revenue					<b>1,399</b>	4,029
Corporate and other unallocated expenses					<b>(24,630)</b>	(23,402)
Finance costs					<b>(2)</b>	(2)
Loss before taxation					<b>(6,022)</b>	(3,995)
Taxation					<b>-</b>	-
Net loss for the period					<b>(6,022)</b>	(3,995)

## 8. INVENTORIES

	<b>As At 30 June 2011 HK\$'000 (Unaudited)</b>	As At 31 December 2010 HK\$'000 (Audited)
Raw materials	<b>47,298</b>	43,218
Work in progress	<b>36,978</b>	20,008
Finished goods	<b>32,904</b>	26,687
	<b>117,180</b>	89,913
Less: Write down of obsolete inventories	-	(2,436)
	<b>117,180</b>	87,477

## 9. TRADE RECEIVABLES

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

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:

	<b>As At 30 June 2011 HK\$'000 (Unaudited)</b>	As At 31 December 2010 HK\$'000 (Audited)
0 – 30 days	<b>3,629</b>	17,257
31– 60 days	<b>5,946</b>	8,264
61– 90 days	<b>9,291</b>	4,584
91– 180 days	<b>4,837</b>	11,376
Over 180 days	<b>32,932</b>	3,504
	<b>56,635</b>	44,985

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



## 10. CASH AND BANK BALANCES

	<b>As At 30 June 2011 HK\$'000 (Unaudited)</b>	As At 31 December 2010 HK\$'000 (Audited)
Cash and bank balances	<b>68,622</b>	25,527

At the balance sheet date, the cash and bank balances of the Group denominated in Renminbi ("RMB") amounted to approximately HK\$45,489,000 (as at 31 December 2010: approximately HK\$23,468,000). RMB is not freely convertible into other currencies. However, under the Foreign Exchange Control Regulations and the Administration of Settlement, Sale and Payment of Foreign Exchange Regulations of the PRC, the Group is permitted to exchange RMB for other currencies through banks which are 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:

	<b>As At 30 June 2011 HK\$'000 (Unaudited)</b>	As At 31 December 2010 HK\$'000 (Audited)
0 – 30 days	<b>5,266</b>	15,947
31– 60 days	<b>5,581</b>	2,542
61– 90 days	<b>3,066</b>	1,110
91– 180 days	<b>13,878</b>	2,484
Over 180 days	<b>13,649</b>	10,671
	<b>41,440</b>	32,754

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 2010	0.002	250,000,000	500,000
At 1 January 2011	0.002	250,000,000	500,000
At 30 June 2011	<b>0.002</b>	<b>250,000,000</b>	<b>500,000</b>
Issued and fully paid:			
At 31 December 2010	0.002	1,744,556	3,489
At 1 January 2011	0.002	1,744,556	3,489
Issue of shares upon exercise of share options (Note (i))	0.002	13,800	28
At 30 June 2011	<b>0.002</b>	<b>1,758,356</b>	<b>3,517</b>

#### Notes:

- (i) On 19 April 2011, the subscription rights attached to 13,800,000 share options were exercised at the subscription price of HK\$0.1374 per share, resulting in the issue of 13,800,000 shares of HK\$0.002 each for a total cash consideration, before expenses, of HK\$1,896,120.

## 13. CONTINGENT LIABILITIES

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

## 14. MATERIAL RELATED PARTY TRANSACTIONS

The Group had no material related party transactions during the six months ended 30 June 2011 and 2010.

## 15. SUBSEQUENT EVENTS

No significant subsequent event took place subsequent to 30 June 2011.





## MANAGEMENT DISCUSSION AND ANALYSIS

### Business and Financial Review

The past two to three years represented a tough period for the Group. As land, wages and raw material costs in China kept rising and the Central Government put forth macro-control policies over housing to cool down the housing market (especially in the first-and-second tier cities), potential home buyers put off their home purchase plans and the demand for furniture slowed down which exerts great influence on the Group's profitability. Nevertheless, with the ongoing recovery of the overall economic conditions, the demand in furniture industry has been increasing. Upon our disposal of all non-performing assets, the Group's performance results are still not satisfactory.

### **Retail Business**

As at 30 June 2011, the Group's total sales revenue amounted to approximately HK\$84,451,000 and was increased by 6.19% as compared to approximately HK\$79,527,000 in the corresponding period last year. Direct and indirect retail sales accounted for 12.62% and 87.38% of the Group's total sales respectively. Indirect retail sales derived from franchises amounted to approximately HK\$73,791,000 and was increased by 3.7% over the corresponding period last year. Direct retail sales derived from self-owned direct sale shop business amounted to approximately HK\$10,660,000 and was increased by 27.4% over the corresponding period in 2010.

Gross profit increased by 11.91% from approximately HK\$15,380,000 in the corresponding period of 2010 to approximately HK\$17,211,000 this year. Gross profit margin increased from approximately 19.34% in the corresponding period last year to 20.38% this year, mainly as a result of the continuous decrease in the various discounts offered by the Group and the sales subsidies provided to franchisees in the light of the continuous improvement in sales.

Operating expenses of the Group amounted to approximately HK\$24,630,000 and was increased by approximately HK\$1,228,000 as compared to approximately HK\$23,402,000 in the corresponding period last year. This was mainly attributable to the fact that the Group had stepped up advertising and promotion. Given that raw material and labour costs (such as social security fund) kept rising while sales revenue only posted marginal increase, the net loss of the Group went up from approximately HK\$3,995,000 in the corresponding period last year to approximately HK\$6,022,000 this year.



In 2010, the Group disposed of all the under-performed self-owned direct sale shops and indirect retail sales businesses related to the Jixiangniao brand, keeping only the business of Lang Fang Huari Furniture International Exhibition Center (“Hall A”) for its self-owned direct sale shop business, thus reducing both the operating costs and risks of the Group and making it one stride closer to the goal in operating and managing of light assets.

### Prospects

The furniture industry in China presents promising prospects under the marco-economic environment created by the “12th Five-year Plan” of the Central Government with the goal in achieving 7% annual growth in the gross domestic product which focuses on expanding domestic consumption and continued urbanization policy.

In 2011, the Group will focus on the domestic furniture retail business and actively explore new sales channels so as to facilitate its market expansion. The Group will also adopt active measures to raise its market share and enhance its brand recognition in China. In terms of product design, the Group will strive to improve its product portfolios by introducing luxury products. In terms of manufacturing and wholesale (i.e. so-called “indirect retail sales”), as the plants, offices and Hall A rented by the Group in the old factory area fall under the removal plan of the government of Langfang Economic and Technology Development Zone, it is expected that production will be delayed to some extent and expenses will be incurred during the relocation, thus reducing the Group’s net profit. The Group will take measures to minimize its losses.

By identifying suitable acquisition targets, the Group also strives to bring new growing points through acquisitions, which in turn will contribute to the diversification of the Group’s business.





## MEMORANDUM OF UNDERSTANDING

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

The consideration of the Proposed Acquisition is expected to be in the range from HK\$600,000,000 to HK\$800,000,000.

As no formal agreement and other legal documentation relating to the subject matter of the MOU has been entered into on or before the ending of the exclusivity period of the MOU (i.e. on or before 19 March 2011), thus the MOU shall lapse accordingly. The earnest money in the amount of HK\$40,000,000 paid by the Purchaser to the Vendor will be refunded to the Purchaser in full.

As at the date of this report, HK\$30,000,000 of the earnest money has been refunded, the Group is urging for the repayment of the balance.

For details, please refer to the announcements of the Company dated 21 September 2010, 18 November 2010 and 19 March 2011.

## LIQUIDITY AND FINANCIAL RESOURCES

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

As at 30 June 2011, cash and bank balances of the Group was approximately HK\$68,622,000.

As at 30 June 2011, total borrowing of the Group amounted to approximately HK\$19,000 (as at 30 June 2010: approximately HK\$35,000), representing the obligation under a finance lease contract with an average interest rate of approximately 5% per annum and average lease term of approximately five years.



## EMPLOYEES INFORMATION

As at 30 June 2011, the Group had employed 6 staffs in Hong Kong and 1,065 staffs in PRC (as at 30 June 2010: 5 staffs in Hong Kong and 1,185 staffs 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 2011 amounted to approximately HK\$10,015,500 (2010: approximately HK\$10,214,000).

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 2011, the Group's gearing ratio was approximately 0.01%, the percentage represents long term liabilities over total assets (as at 30 June 2010: approximately 0.01%).

## DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Other than the new 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 June 2011, 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 2011, the Company had adopted the 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 2011, 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	Beneficiary of a trust		
Mr. Li Ge	57,240,000	-	351,598,000	-	408,838,000	23.25%

*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 30 June 2011.

Save as disclosed above, as at 30 June 2011, 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 2011, 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> <i>(Note 1)</i>
<b>Substantial Shareholders</b>			
True Allied Assets Limited	Beneficial owner	351,598,000	19.99%
Mr. Li Ge <i>(Note 2)</i>	Interest of controlled corporation	351,598,000	19.99%
	Beneficial owner	57,240,000	3.26%

*Notes:*

- (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 30 June 2011.
- (2) Mr. Li Ge is interested by virtue of his 100% beneficial interest in True Allied Assets Limited.

Save as disclosed above, as at 30 June 2011, 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, the Group did not have any other charge on its assets as at 30 June 2011 (2010: Nil).

## FOREIGN CURRENCY RISK

As most of the Group's monetary assets and liabilities were denominated in Renminbi and Hong Kong dollars, the exchange rate risks of the Group were considered to be minimal. As at 30 June 2011, no related hedges were made by the Group.

## CONTINGENT LIABILITIES

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

## AUDIT COMMITTEE

The Company has established an audit committee in 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 then directors attending the Board meeting held on 7 December 2006, the terms of reference set out in "A Guide for Effective Audit Committees", published by HKICPA in February 2002, were adopted as written terms of reference for the audit committee of the Company. As at 30 June 2011, the audit committee comprised three members, namely Mr. LEE Yuen Kwong, Mr. YANG Dongli and Mr. YANG Jie, being independent non-executive Directors of the Company.

The primary duties of the audit committee are to review and supervise the financial reporting process and internal control systems of the Group and to provide advice and comments to the Board. The audit committee has reviewed the Group's interim results announcement and report for the six months ended 30 June 2011 and provided advice and recommendations to the Board. After the review of the financial statements, the members of the audit committee were of the opinion that such statements comply with the applicable accounting standards, the GEM Listing Rules and other applicable laws and regulations and that adequate disclosure had been made.



## CORPORATE GOVERNANCE PRACTICES

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

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

The Group deviates from Code Provision A.2.1 in the Code on Corporate Governance Practices (the “CG Code”) set out in Appendix 15 to the GEM Listing Rules. The roles of chairman and chief executive officer of the Group rests on the same individual without having a clear division of responsibilities. However, the Board is of the view that, such non-compliance does not compromise accountability and independent decision making for the following reasons:

- the three independent non-executive Directors and one non-executive Director form the majority of the seven member Board;
- the Audit Committee is composed exclusively of independent non-executive Directors; and
- the independent non-executive Directors and non-executive Director could have free and direct access to the Company’s external auditors and independent professional advice whenever necessary.

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

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

Save as disclosed above, for the six months ended 30 June 2011, the Company complied with the code provisions of the CG Code.



## OLD SHARE OPTION SCHEME

Pursuant to the share option scheme adopted by the shareholders of the Company on 24 May 2002 (the “Old Share Option Scheme”), the Board could for a consideration of HK\$1.00 offer to selected eligible persons (as defined in the circular of the Company dated 6 May 2002) to subscribe for shares of the Company as incentive or rewards for their contribution to the Group. The Old Share Option Scheme became effective on 24 May 2002 (the date on which the Share Option Scheme was adopted) and terminated on 9 December 2010. The subscription price under the Old Share Option Scheme was determined by the Board in its absolute discretion, in any event, was not 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 was 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 was granted.

The maximum number of shares in respect of which options may be granted under the Old Share Option Scheme and other schemes of the Company may not, in aggregate, exceed 30% of the issued share capital of the Company from time to time which have been duly allotted and issued. The 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. An option may be exercised in whole or in part at any time during the Option Period (as defined in the circular of the Company dated 6 May 2002).

The details and major provisions of the Old Share Option Scheme were set out in the circular of the Company dated 6 May 2002. The details of the termination of the Old Share Option Scheme were set out in the circular of the Company dated 24 November 2010.

On 22 January 2010 and 28 September 2010 (the “Date of Grant”), the Company has granted 110,400,000 and 27,600,000 share options to certain Eligible Persons (as defined in the Old Share Option Scheme) (the “Offerees”) respectively, pursuant to the Old Share Option Scheme, representing approximately 7.972% and 1.9166% of the issued share capital of the Company as at 22 January 2010 and 28 September 2010 respectively. The share options entitle the offerees to subscribe for a total of 138,000,000 ordinary shares of HK\$0.002 each in the capital of the Company upon exercise in full. The exercise prices of the share options granted were HK\$0.1374 and HK\$0.157 respectively, and the validity and exercise periods were two years and one year respectively, both commencing from the date of grant.



For the six months ended 30 June 2011, the details of the share option being granted, exercised, outstanding and lapsed under the Old Share Option Scheme are as follow:

Name and category of participants	Position held with the Group and the Company	Date of grant of share options*	Exercise period of share options	Number of unlisted share options			Share price of the Company			
				Outstanding at 1 January 2011	Exercised during the Period	Cancelled/ lapsed during the Period	Outstanding as at 30 June 2011	Exercise price of share options	As at the date of grant of share options	As at the date of exercise of share options
				HK\$	HK\$	HK\$	HK\$	HK\$	HK\$	
<b>Other Participants</b>										
Fung Chan Man	Financial Advisor	22 January 2010	22 January 2010 to 21 January 2012	13,800,000	(13,800,000)	-	-	0.1374 per share	0.1310 per share	0.1240 per share
Libon Fung	Accounting Advisor	22 January 2010	22 January 2010 to 21 January 2012	13,800,000	-	-	13,800,000	0.1374 per share	0.1310 per share	N/A
Zhou Xu En	Sales Consultant	22 January 2010	22 January 2010 to 21 January 2012	13,800,000	-	-	13,800,000	0.1374 per share	0.1310 per share	N/A
Zhao Hua Jie	Finance Consultant	28 September 2010	28 September 2010 to 27 September 2011	13,800,000	-	-	13,800,000	0.1570 per share	0.1550 per share	N/A
				<u>55,200,000</u>	<u>(13,800,000)</u>	<u>-</u>	<u>41,400,000</u>			

\* There is no vesting period of the share options.

Up to the date of this report, except for the above-mentioned share options that have been granted, no options was granted under the Old Share Option Scheme.

## NEW SHARE OPTION SCHEME

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

The maximum number of shares in respect of which options may be granted under the New Share Option Scheme and other schemes of the Company may not, in aggregate, exceed 30% of the issued share capital of the Company from time to time which have been duly allotted and issued. The total number of shares issued and to be issued upon exercise of the options granted (including both exercised and outstanding options) in any 12-month period





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

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

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

The Company has not grant any options under the New Share Option Scheme for the six months ended 30 June 2011.

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

For the six months ended 30 June 2011, 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 2011.

## **RE-ELECTION OF DIRECTORS**

At the annual general meeting of the Company held on 6 May 2011, 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 2011

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