

FAVA INTERNATIONAL HOLDINGS LIMITED

名家國際控股有限公司*

(Incorporated in Bermuda with limited liability)

(Stock Code: 08108)

ANNOUNCEMENT OF THIRD QUARTERLY RESULTS FOR THE NINE MONTHS ENDED 30 SEPTEMBER 2012

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

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

Given the emerging nature of companies listed on GEM, there is a risk that securities traded on GEM may be more susceptible to high market volatility than securities traded on the main board of the Stock Exchange and no assurance is given that there will be a liquid market in the securities traded on GEM.

Hong Kong Exchanges and Clearing Limited and the Stock Exchange take no responsibility for the contents of this announcement, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this announcement.

This announcement, 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 announcement 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 announcement misleading.

* For identification purpose only

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 2012 together with the comparative figures.

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (UNAUDITED)

For the three months and nine months ended 30 September 2012

	Notes	Three months ended 30 September		Nine months ended 30 September	
		2012 HK\$'000	2011 HK\$'000	2012 HK\$'000	2011 HK\$'000
Turnover	2	42,970	49,561	153,056	134,012
Cost of sales		(26,986)	(40,682)	(126,253)	(107,922)
Gross profit		15,984	8,879	26,803	26,090
Other revenue		65	43	200	167
Other income		636	132	9,573	1,407
Selling and distribution costs		(6,558)	(3,429)	(12,209)	(10,633)
Administrative expenses		(33,237)	(9,141)	(71,160)	(26,507)
Other operating expenses		–	–	(7,309)	(60)
Loss from operations		(23,110)	(3,516)	(54,102)	(9,536)
Finance costs		(2,535)	(1)	(3,984)	(3)
Loss before taxation		(25,645)	(3,517)	(58,086)	(9,539)
Taxation	3	–	–	–	–
Loss for the period		(25,645)	(3,517)	(58,086)	(9,539)
Attributable to:					
Owners of the Company		(19,707)	(3,517)	(49,239)	(9,539)
Non-controlling interests		(5,938)	–	(8,847)	–
		(25,645)	(3,517)	(58,086)	(9,539)
		<i>HK cents</i>	<i>HK cents</i>	<i>HK cents</i>	<i>HK cents</i>
Loss per share					
– basic and diluted	5	(1.1)	(0.2)	(2.75)	(0.5)
Loss for the period		(25,645)	(3,517)	(58,086)	(9,539)
Other comprehensive (loss)/income for the period, net of tax					
Exchange differences on translating foreign operations		(414)	3,637	785	9,383
Total comprehensive (loss)/income for the period		(26,059)	120	(57,031)	(156)
Total comprehensive (loss)/income attributable to:					
Owners of the Company		(20,121)	120	(48,231)	(156)
Non-controlling interests		(5,938)	–	(9,070)	–
		(26,059)	120	(57,031)	(156)

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (UNAUDITED)

	Share capital <i>HK\$'000</i>	Share premium <i>HK\$'000</i>	Contributed surplus <i>HK\$'000</i>	Accumulated losses <i>HK\$'000</i>	Share options reserve <i>HK\$'000</i>	Convertible bond reserve <i>HK\$'000</i>	Exchange reserves <i>HK\$'000</i>	Statutory reserves <i>HK\$'000</i>	Subtotal <i>HK\$'000</i>	Non- controlling interest <i>HK\$'000</i>	Total equity <i>HK\$'000</i>
At 31 December 2010 and 1 January 2011	3,489	216,838	36,000	(32,562)	3,174	-	35,631	43,500	306,070	-	306,070
Loss for the period	-	-	-	(9,539)	-	-	-	-	(9,539)	-	(9,539)
Other comprehensive income for the period	-	-	-	-	-	-	9,383	-	9,383	-	9,383
Total comprehensive (loss)/ income for the period	-	-	-	(9,539)	-	-	9,383	-	(156)	-	(156)
Issue of shares upon exercise of share options	28	-	-	-	(828)	-	-	-	(800)	-	(800)
Premium arising from issue of upon exercise of share options	-	2,696	-	-	-	-	-	-	2,696	-	2,696
At 30 September 2011	<u>3,517</u>	<u>219,534</u>	<u>36,000</u>	<u>(42,101)</u>	<u>2,346</u>	<u>-</u>	<u>45,014</u>	<u>43,500</u>	<u>307,810</u>	<u>-</u>	<u>307,810</u>
At 31 December 2011 and 1 January 2012	<u>3,517</u>	<u>219,534</u>	<u>36,000</u>	<u>(84,392)</u>	<u>1,656</u>	<u>-</u>	<u>44,587</u>	<u>43,500</u>	<u>264,402</u>	<u>(8)</u>	<u>264,394</u>
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(expense)/ Income for the period	-	-	-	(49,239)	-	-	1,008	-	(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	<u>3,517</u>	<u>219,534</u>	<u>36,000</u>	<u>(143,028)</u>	<u>1,656</u>	<u>429</u>	<u>45,595</u>	<u>43,500</u>	<u>207,203</u>	<u>45,319</u>	<u>252,522</u>

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 2012 are consistent with those adopted in the annual report of the Company for the year ended 31 December 2011.

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 and provision of funeral services and sales of funeral related products. An analysis of the Group's turnover is as follows:

	Three months ended		Nine months ended	
	30 September		30 September	
	2012	2011	2012	2011
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Manufacture and sales of household products	29,401	41,988	128,784	126,439
Provision of funeral services and sales of funeral related products	13,569	7,573	24,272	7,573
	<u>42,970</u>	<u>49,561</u>	<u>153,056</u>	<u>134,012</u>

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 2012 (nine months ended 30 September 2011: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 categorized 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 nine months ended 30 September 2012 as the PRC subsidiary of the Group has recorded loss (nine months ended 30 September 2011: Nil).

There was no significant unprovided deferred taxation for the nine months ended 30 September 2012 (nine months ended 30 September 2011: Nil).

Deferred tax had not been provided as there were no significant temporary differences at the period-end date (nine months ended 30 September 2011: Nil).

4. INTERIM DIVIDEND

No interim dividend has been paid or declared by the Company for the nine months ended 30 September 2012 (nine months ended 30 September 2011: Nil).

5. LOSS PER SHARE

The calculation of basic loss per share is based on the loss attributable to shareholders of the Company of approximately HK\$49,239,000 (2011: approximately HK\$9,539,000) and the weighted average 1,758,355,970 (2011: 1,758,355,970) ordinary shares in issue during the period.

Diluted loss per share for the nine months ended 30 September 2012 had not been shown as the exercised or outstanding convertible notes 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 nine months ended 30 September 2012 and 2011.

MANAGEMENT DISCUSSION AND ANALYSIS

Business and Financial Review

The reportable businesses of the Group include household products business and funeral business.

During the nine months ended 30 September 2012, the Group recorded total operating revenue of approximately HK\$153,056,000, representing an increase by 14.21% as compared to that of the corresponding period last year, with an aggregate loss of approximately HK\$58,086,000.

During the nine months ended 30 September 2012, the gross profit of the Group was approximately HK\$26,803,000, with the average gross profit margin of approximately 17.5%.

Household Products Business

During the period under review, the European debt crisis continually squeezed the global household market. Additionally, as labor cost continued surging, land and raw material costs in China kept rising and the PRC Central Government put forth macro-control policies over housing sector to cool down

the housing market (especially in the first-and-second tier cities), potential home buyers put off their home and furniture purchase plans, and the Group's furniture business and profitability was greatly affected. To cope with the rising costs, the Group closed the direct retail business entirely in the third quarter last year, and adjusted the sale price of some household products in the second half of 2011, and disposed of remaining non-performing assets. However, the performance remained unsatisfying.

As of 30 September 2012, the total sales revenue from household products amounted to approximately HK\$128,784,000, representing an increase by 1.85% as compared to approximately HK\$126,439,000 in the corresponding period last year. Gross profit plummeted 80.64% to approximately HK\$4,958,000 this year from approximately HK\$25,610,000 in the corresponding period of 2011. Gross profit margin dipped significantly to approximately 3.85% this year from approximately 20.25% in the corresponding period last year, mainly due to the escalating production costs which were not fully passed onto consumers after the Group considered affordability of consumers and keeping of market share and the long-term slow-moving inventory of finished goods of approximately RMB21.35 million (approximately HK\$26.3 million) which were sold at 10% discount to the cost.

Operating expenses of the Group from household products business amounted to approximately HK\$50,388,000, representing an increase of approximately HK\$19,111,000 as compared to approximately HK\$31,277,000 in the corresponding period last year. With the gross profit sharply dipping, the loss on disposal of slow-moving inventory of finished goods, and disposal of work in progress of approximately RMB14.5 million (approximately HK\$17.84 million) which can only be used to produce slow-moving inventory of finished goods at 30% discount to the cost, the net loss from household products business rose significantly to approximately HK\$47,537,000 this year from approximately HK\$9,318,000 in the corresponding period last year.

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

On 21 May 2012, the Group and Fancy Collection Inc. entered into an agreement to transfer 25% of issued shares of Hengyu to Fancy Collection Inc. at a consideration of RMB45,000,000, and the transaction has been completed on 24 May 2012.

Other plants and office building leased from Huari in the old factory area may also need to be relocated in stages in the future, which may affect the Company's future production to some extent. As of the date of this report, Huari has not provided a fixed relocation timetable, the Group is therefore unable to assess the impact of the relocation. The Group will claim the losses incurred during relocation by negotiation with Huari.

Funeral Business

For the nine months ended 30 September 2012, the total revenue of the Group from the provision of funeral related services and trading of funeral related products amounted to approximately HK\$24,272,000, the net loss from which was approximately HK\$10,549,000.

On 15 December 2011, the Group entered into an agreement to acquire 100% equity interest in Profit Value Group Limited at a consideration of HK\$80 million in cash. The acquisition will enable the Group to obtain the Subcontracting Agreement entered between Ming De Tang Trading (Shenzhen) Limited Company (an indirectly wholly owned subsidiary of Profit Value Group Limited in PRC) and Huidong County Huaqiao Cemetery Management Company in respect of the provision of all the funeral related services and products, and assistance necessary for the operation of Huidong County Huaqiao Cemetery. The transaction was officially approved by the Shareholders at the Special General Meeting of the Company convened on 12 March 2012 and has been completed on 10 April 2012.

In addition, South China Memorial Park & Funeral Services Limited, an indirectly non-wholly owned subsidiary of the Group has been granted by the government of Hong Kong Special Administrative Region a right for a period of 60 months with effect from 1 April 2012 to 31 March 2017 (both dates inclusive) to provide funeral services to the public under a valid funeral parlour licence, and to operate, manage and maintain a public funeral parlour, which officially changed its name to Grand Peace Funeral Parlour, situated on Cheong Hang Road, Hung Kom. Grand Peace Funeral Parlour completed the interior decoration on 27 April 2012 and officially commenced business on the same day.

The Group believes that the above acquisition and actions will lay a solid foundation for the diversified future development of the Group's funeral business.

Prospects

In 2012, the Group expects that the PRC Central Government will not loose its regulating measures on the housing market, which, in turn, will bring some impact on household products market. The sluggish housing market is expected to continually affect the household products market. However, the management believes that the policy to expand domestic consumption and continue urbanization prescribed in the "12th Five-year Plan" of the PRC Government do have some thrust on the furniture industry in China.

As the excess capacity in furniture industry is expected to worsen in 2012, the Group will continue to vigorously explore new sales channels so as to facilitate its market expansion. The Group will also adopt active measures to raise its market share and raise its brand awareness in China. In terms of product design, the Group will strive to improve its product portfolios and introduce more luxury products. The Group is actively integrating production capacity in household products business to ensure a lower cost and expense in production.

Involving in the funeral business widens the profitability ground for the Group. Moreover, the Group will maintain a dynamic momentum to generate new growth through acquiring and expanding different businesses. We believe that the strategy of diversification will boost the value for our Shareholders and achieve the purpose of diversifying operation risks.

DISPOSAL OF INTEREST IN A SUBSIDIARY

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

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

MATERIAL ACQUISITION

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

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

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

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

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

For details, please refer to the announcement of the Company dated 29 May 2012.

ISSUE OF CONVERTIBLE NOTES

On 3 September 2012, the Company and the Sun Finance Company Limited entered into a subscription agreement in respect of the issue of the convertible notes (“Convertible Notes”) in the principal amount of HK\$35,000,000. The Convertible Notes shall carry an interest of 42% per annum payable in arrears monthly. Maturing 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, and convertible into ordinary shares at conversion price of HK\$0.10 per share, subject to adjustments.

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.

As as 30 September 2012, the aggregate outstanding principal amount of the Convertible Notes were HK\$35,000,000. The exercise in full of the vested conversion rights would result in the issue and allotment of 350,000,000 new shares of the Company.

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

PROPOSED PLACING OF CONVERTIBLE NOTES

On 17 October 2012, the Company and the Sun Securities Limited entered into a placing agreement (the “Placing Agreement”), pursuant to which the Sun Securities Limited agreed to procure, on a best efforts basis, independent places 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.

A special general meeting of the Company will be held on 23 November 2012 for the purpose of considering and approving the Placing Agreement and the transactions contemplated thereunder.

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

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 September 2012, cash and bank balances of the Group was approximately HK\$18,995,000.

As at 30 September 2012, total borrowing of the Group amounted to approximately HK\$81,000 (as at 30 September 2011: approximately HK\$15,180), representing the obligation under a finance lease contract with an average interest rate of approximately 3.8% per annum and average lease term of approximately five years.

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 September 2012, 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 2012, the Company had adopted a code of conduct regarding securities transactions by directors on terms no less exacting than the required standard of dealings as set out in Rules 5.48 to 5.67 of the GEM Listing Rules. The Company 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 September 2012, the interests and short positions of the Directors and chief executive of the Company in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO), which are required to be notified to the

Company and the Stock Exchange pursuant to Divisions 7 & 8 of Part XV of the SFO (including interests and short positions which they are taken or deemed to have under such provisions of the SFO) or which are required pursuant to Section 352 of the SFO to be entered in the register referred to therein, or as otherwise notified to the Company and the Stock Exchange pursuant to the required standard of dealings by directors as referred to in Rules 5.46 of the GEM Listing Rules were as follows:

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

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

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 September 2012.
- (2) Mr. Li Ge beneficially owns the entire issued share capital of True Allied Assets Limited. Therefore, Mr. Li Ge is deemed, or taken to be, interested in all the shares held by True Allied Assets Limited for the purpose of SFO.

Save as disclosed above, as at 30 September 2012, none of the Directors and chief executive of the Company was, under Divisions 7 & 8 of Part XV of the SFO, taken to be interested or deemed to have any other interests or short positions in the shares, underlying shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) that were required to be entered into the register kept by the Company pursuant to Section 352 of the SFO or were required to be notified to the Company and the Stock Exchange pursuant to the GEM Listing Rules.

(b) Substantial shareholders' and other persons' interests and short positions in shares and underlying shares

So far as were known to the Directors or chief executive of the Company, as at 30 September 2012, the following persons (other than the Directors and chief executive of the Company as disclosed above) had interests and/or short positions of 5% or more of the shares and underlying shares of the Company as recorded in the register of interests required to be kept by the Company pursuant to Section 336 of the SFO:

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

Name	Nature and capacity of interest	Number of shares held	Approximate percentage of the Company's total issued share capital (Note 1)
Substantial Shareholder			
True Allied Assets Limited	Beneficial owner	351,598,000	19.99%

Note:

- (1) The percentage is calculated by dividing the number of shares interested or deemed to be interested by the existing 1,758,355,970 issued shares as at 30 September 2012.

Save as disclosed above, as at 30 September 2012, 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, pledged bank deposits and secured short-term other loan, the Group did not have any other charge on its assets as at 30 September 2012 (2011: 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 September 2012, 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 (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 2012, the audit committee comprised three members, namely Mr. LIU Qing Chen, Mr. YANG Dongli and Mr. ZHANG Chun Qiang, all being independent non-executive Directors of the Company.

The primary duties of the Audit Committee are to review and supervise the financial reporting process and internal control systems of the Group and to provide advice and comments to the Board. The Audit Committee has reviewed the Group’s third quarterly results announcement and report for the nine months ended 30 September 2012 and provided advice and recommendations to the Board. After the review of the financial statements, the members of the Audit Committee were of the opinion that such statements comply with the applicable accounting standards, the GEM Listing Rules and other applicable laws and regulations and that adequate disclosure had been made.

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 “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 form half of the six member Board;
- the Audit Committee is 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 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.

Save as disclosed above, for the nine months ended 30 September 2012, the Company complied with the code provisions of the 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 Old Share Option Scheme was adopted) and terminated on 9 December 2010.

As at 1 January 2012, the number of share options outstanding under the Old Share Option Scheme were 27,600,000, all of which lapsed during the period under review.

NEW SHARE OPTION SCHEME

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

The maximum number of shares in respect of which options may be granted under the New Share Option Scheme and other schemes of the Company may not, in aggregate, exceed 30% of the issued share capital of the Company from time to time which have been duly allotted and issued. The total number of shares issued and to be issued upon exercise of the options granted (including both exercised and outstanding options) in any 12-month period to each eligible person shall not exceed 1% of the shares in issue. If any further grant of options to such eligible person which would result in the shares issued or to be issued upon exercise of all options granted or to be granted to such eligible person (including exercised, cancelled and outstanding options) in the 12-month period up to and including the date of further grant would exceed 1% of the shares in issue, such grant must be separately approved

by shareholders in general meeting, with such eligible person and its associates abstaining from voting. A shareholders' circular containing the information required by the GEM Listing Rules shall be despatched to the shareholders. An option may be exercised in whole or in part at any time during the Option Period (as defined in the circular of the Company dated 23 November 2010).

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

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

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

The Company has not grant any options under the New Share Option Scheme for the nine months ended 30 September 2012.

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 nine months ended 30 September 2012, 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 nine months ended 30 September 2012.

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

Hong Kong, 8 November 2012

As at the date of this announcement, the Board comprises of Mr. LI Ge, Mr. ZHAO Guo Wei and Mr. SUN, Miguel as executive Directors, Mr. LIU Qing Chen, Mr. YANG Dongli and Mr. ZHANG Chun Qiang as independent non-executive Directors.

This announcement will remain on the GEM website at <http://www.hkgem.com> on the "Latest Company Announcements" page for at least seven days from the day of its posting and on the website of the Company at <http://www.fava.com.hk>.