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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)

MAJOR TRANSACTION INVOLVING ACQUISITION OF THE SALE SHARE AND THE SALE LOAN

THE SP AGREEMENT

The Board announces that after trading hours on 15 December 2011, the Purchaser, an indirect wholly-owned subsidiary of the Company, and the Vendor entered into the SP Agreement pursuant to which the Purchaser conditionally agreed to acquire and the Vendor conditionally agreed to sell the Sale Share and the Sale Loan at a consideration of HK\$80 million in cash. The Sale Share represents 100% equity interest in the Target whilst the Sale Loan represents the entire amount of shareholder's loan owing by the Target to the Vendor as at the Completion Date.

The principal asset of the Target is its holding of, through the HK Company, 100% equity interest in the WFOE, which is the sole subcontractor of 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 Cemetery under the Subcontracting Agreement.

GENERAL

The Acquisition constitutes a major transaction for the Company under Chapter 19 of the GEM Listing Rules and thus the SP Agreement and the transactions contemplated thereunder require the approval of the Shareholders by way of poll at the SGM. To the best of the Directors' knowledge, information and belief having made all reasonable enquiries, no Shareholder is required to abstain from voting to approve the ordinary resolution in respect of the SP Agreement and the transactions contemplated thereunder at the SGM.

A circular containing, among other things, details of the SP Agreement and the Subcontracting Agreement, the financial information on the Group and the Target Group, the valuation report on the Target Group, the notice to convene the SGM and other information as required under the GEM Listing Rules will be despatched to the Shareholders on or before 10 January 2012.

* *For identification purpose only*

After trading hours on 15 December 2011, the Purchaser, an indirect wholly-owned subsidiary of the Company, and the Vendor entered into the SP Agreement pursuant to which the Purchaser conditionally agreed to acquire and the Vendor conditionally agreed to sell the Sale Share and the Sale Loan at a consideration of HK\$80 million in cash. Upon Completion, the Purchaser will indirectly own 100% equity interest in the WFOE, which will become the sole subcontractor to provide all funeral-related services and products, and assistance necessary for the operation of the Cemetery under the Subcontracting Agreement whilst the PRC Cemetery Company, which has been operating the Cemetery on the Land for over 18 years, remains the operator of the Cemetery. As at the date of this announcement, the PRC Cemetery Company is in the process of acquiring the land title of the Cemetery, details of which are set out in the section headed “Information on the Target Group and the Cemetery” below.

THE SP AGREEMENT

Date

15 December 2011

Parties

- (i) EMAX Venture Limited, an indirect wholly-owned subsidiary of the Company, being the Purchaser; and
- (ii) Mr. Lau Chi Yan, Pierre, the legal and beneficial owner of the entire issued share capital of the Target, being the Vendor.

To the best of the Directors’ knowledge, information and belief and having made all reasonable enquiries, the Vendor is an Independent Third Party.

Assets to be acquired

The assets to be acquired under the SP Agreement comprise (i) the Sale Share, being the entire issued share capital of the Target as at the date of the SP Agreement; and (ii) the Sale Loan, being the entire amount of the shareholder’s loan owing by the Target to the Vendor as at the Completion Date.

As at the date of the SP Agreement, the shareholder’s loan owing by the Target to the Vendor amounted to approximately HK\$200,892. The Vendor has warranted under the SP Agreement that the Sale Loan will be not less than HK\$1,000,000.

Consideration

The aggregate consideration for the Sale Share and the Sale Loan of HK\$80 million shall be paid in cash 12 months after the Completion Date and shall be apportioned as follows:

- (i) the portion of the Consideration attributable to the Sale Loan shall be equal to the face value of the Sale Loan; and
- (ii) the balance of the Consideration shall be attributable to the Sale Share.

The Consideration was determined after arm's length negotiations between the Purchaser and the Vendor with reference to, among other things, (i) the expected number of the burial vaults for urns and coffins and columbaria in the Cemetery; (ii) the service fee to be charged by WFOE to the PRC Cemetery Company pursuant to the Subcontracting Agreement; (iii) the death rate in Guangdong Province and Hong Kong in recent years; (iv) the prospects of the burial industry in Guangdong Province taking into account the demand for the coffin burials and the relevant funeral-related services and products in the Guangdong Province from overseas Chinese; (v) the geographical advantage arising from the proximity of the Cemetery to the transportation hub in Luohu, Shenzhen; and (vi) the business potential and growth prospect of the Target Group.

Subject to the circumstances approaching the due date of the payment of the Consideration, the Company will consider different alternatives to fund the Consideration which may include internal resources and/or borrowings and/or equity financing.

Compensation

In view of the risk arising from the land title of the Cemetery (details of which are set out in the section headed "Information on the Target Group and the Cemetery" below), the Vendor has agreed to compensate the Purchaser in the event that:

- (i) the PRC Cemetery Company terminates or is required to terminate (i) all or any part of its business; and/or (ii) its direct or indirect operation on the Land and/or management of the Cemetery and relevant business (including provision of all funeral-related services and products necessary for the operation of the Cemetery);
- (ii) the PRC Cemetery Company terminates the Subcontracting Agreement; and
- (iii) the PRC Cemetery Company breaches any of the material terms of the Subcontracting Agreement (collectively, the "Compensation Events").

Pursuant to the SP Agreement, the compensation will be the difference between (i) the Consideration; and (ii) the aggregate amount of audited consolidated net profits after taxation net of the aggregate audited consolidated net loss after taxation (the "Aggregate Profits") for the period from the Completion Date to the month immediately preceding the occurrence of the Compensation Events.

The compensation shall not exceed the Consideration (i.e. HK\$80 million) and the obligation to compensate shall be discharged where (i) the PRC Cemetery Company has obtained the land title of the Cemetery; or (ii) the Aggregate Profits are equal to or higher than the Consideration.

Conditions precedent

Completion shall be conditional upon the fulfillment or waiver (as the case may be) of the following conditions:

- (i) the Company, the Purchaser and the Vendor having obtained all necessary approvals and consents for the Acquisition;
- (ii) there is no event, fact or circumstance which constitutes, or may constitute a material breach of the warranties or terms of the SP Agreement and the Vendor has fully complied with all its obligations under the SP Agreement;
- (iii) the Company having obtained the approval of the SP Agreement and the transactions contemplated thereunder from the Shareholders at the SGM as required under the GEM Listing Rules;
- (iv) the legal advisers as to the PRC laws as designated by the Purchaser having issued the legal opinion, in such form and substance to the satisfaction of the Purchaser, covering matters on the SP Agreement and the WFOE (including but not limited to (i) WFOE's due incorporation and subsistence; (ii) WFOE's registered capital and investment amount being HK\$1 million respectively; (iii) the legality of WFOE's provision of services, products and assistance to the PRC Cemetery Company under the Subcontracting Agreement; and (iv) the legal validity and enforceability of the Subcontracting Agreement);
- (v) the Purchaser, at its absolute discretion, having been satisfied with the results of a due diligence review (with the assistance and support from the Vendor) on the assets, liabilities, operation and other affairs of the Target, HK Company and the WFOE, and all relevant information and documents relating to the Subcontracting Agreement;
- (vi) the valuers designated by the Purchaser having issued a valuation report, in such form and substance to the satisfaction to the Purchaser, on the Target Group with a value of not less than HK\$80 million;
- (vii) the firm of accountants designated by the Vendor having issued a capital verification report confirming that the registered capital of the WFOE in an amount of HK\$1 million having been fully paid;
- (viii) the WFOE having completed the relevant company registration procedures and obtained the business license in respect of the business scope set out in the paragraph headed "Information on the Target Group and the Cemetery – The Target Group" in this announcement; and

- (ix) the Vendor having given written confirmation and consent to waive all liabilities (save for the Sale Loan) owing from the Target, the HK Company or/and the WFOE.

The Purchaser may waive all or any of the conditions precedent (save for conditions (iii)) by notice in writing to the Vendor. If the conditions precedent have not been fulfilled or waived (as the case may be) on or before 30 June 2012 or such other date as the Purchaser and the Vendor may mutually agree in writing, the SP Agreement shall lapse and neither party shall have any claims or proceedings against the other in connection with the SP Agreement save for any antecedent breach.

Completion

Completion shall take place on the third Business Day after fulfillment or waiver (as the case may be) of the last of the above conditions or such other date as the Purchaser and the Vendor may mutually agree in writing. Upon Completion, the Target will become an indirect wholly-owned subsidiary of the Company and its results will be consolidated into the accounts of the Group.

INFORMATION ON THE TARGET GROUP AND THE CEMETERY

The Target Group

The Target is an investment holding company incorporated in the BVI with limited liability on 11 October 2011. Its principal asset is its holding of the entire issued share capital of the HK Company, which was incorporated in Hong Kong on 21 October 2010 with limited liability and holds 100% equity interest in the WFOE. As advised by the Vendor, the Target and the HK Company have not carried out any business since its incorporation.

The WFOE was incorporated in the PRC on 29 September 2011 with a business scope involving, among other things, wholesales of stone, construction materials and funeral-related products and other relevant ancillary businesses (excluding provision of products which are under state supervision and requiring approval of the relevant government authorities), and provision of funeral consultancy services upon Completion. As at the date of this announcement, the WFOE has obtained approval from 深圳市寶安區經濟促進局 (Shenzhen Baoan Economic Promotion Bureau*) and the relevant certificate of approval, and is in the course of obtaining the relevant business license in respect of the aforesaid business scope. It has not carried out any business since its incorporation save for the entering into of the Subcontracting Agreement.

On 15 December 2011, the WFOE and the PRC Cemetery Company entered into the Subcontracting Agreement pursuant to which the WFOE is the sole subcontractor of 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 Cemetery to the PRC Cemetery Company, principal terms of which are set out as follows:

- Outsourcing company : The PRC Cemetery Company, a company wholly owned by the Independent Third Parties, incorporated in the PRC with limited liability, and principally engaged in, among other things, funeral services, stone carvings and crafts, flower horticulture and construction materials
- Sole subcontractor : the WFOE
- Services provided : Pursuant to the Subcontracting Agreement, the WFOE is responsible for the provision of all funeral-related services and products and assistance necessary for the operation of the Cemetery to the PRC Cemetery Company including but not limited to:
- (i) supplying and building all tombstones, tombs and clan mausoleum necessary for the Cemetery;
 - (ii) supplying and building all vases, marble floorslab, animal statues, thuribles and furnaces;
 - (iii) supplying and planting pines, cypress and other plants and responsible for all landscaping of the Cemetery;
 - (iv) supplying all products relating to interment and sacrifice rituals;
 - (v) supplying all other relevant services and products necessary for the operation of the Cemetery;
 - (vi) assisting the PRC Cemetery Company in providing funeral and burial ritual products and services including but not limited to application procedures for burial and execution of ritual procedures as agreed by the PRC Cemetery Company and its clients.
- Fees : The aggregate fees for the provision of the funeral-related services and products are to be specified in the sale orders and determined before the performance of the sale orders and by

reference to the market prices of the services and products on a case by case basis after arm's length negotiation between the parties. In particular, the service fees in respect of item (vi) above shall be equivalent to 50% of the selling price of each burial vault (for either coffins or urns) or columbarium in the Cemetery sold to the client by the PRC Cemetery Company and in any event not less than:

- (i) RMB20,000 as to the burial vault for coffins;
- (ii) RMB10,000 as to the burial vault for urns; and
- (iii) RMB1,000 as to the columbaria

The aggregate fees shall be settled once a month within three Business Days from the date of receipt of the relevant invoices by the PRC Cemetery Company.

Term : 30 years from 1 December 2011 to 30 November 2041

The Cemetery

The Cemetery is located at Huidong County, Huizhou City, Guangdong Province with a site area of approximately 266,668 sq.m. The PRC Cemetery Company has been operating the Cemetery since 1993 and approximately 9,333 sq.m. has been utilized for burial purpose. A newly planned area of approximately 160,000 sq.m. out of the remaining 257,335 sq.m. is expected to be developed into three regions and seven zones. Three regions include office region, landscaping region and burial region, while seven zones comprise Yongan Park, Changfu Park, Yongfu Park, Changqing Park, Yongle Park, Changle Park and Yongtai Park. According to the development plan, the Cemetery will be renovated with newly built monuments, pavilions, memorials, furnaces, etc. Upon completion of the development, it is expected that the Cemetery would accommodate (i) over 17,000 units of burial vaults for urns of Chinese citizens; (ii) over 2,700 units of burial vaults for coffins of overseas Chinese only; and (iii) over 21,000 units of columbaria for both overseas Chinese and Chinese citizens.

As advised by the Vendor, the PRC Cemetery Company has not obtained the land title of the Cemetery as at the date of this announcement and thus the operation of the Cemetery may be considered as illegal under the PRC laws. However, as advised by the legal advisers of the Company as to the PRC laws, such risk is very low as (i) Bureau of Land and Resources of Huidong County has granted their consent to the PRC Cemetery Company to complete the procedures for acquiring the land title of the Cemetery and the PRC Cemetery Company is in process of obtaining it; (ii) the PRC Cemetery Company has obtained the business license for operating the Cemetery annually; (iii) it has passed the annual inspection by relevant government authorities throughout the years of operation. In view of such risk, the Vendor has agreed to pay the compensation to the Purchaser under the SP Agreement in the event that, among others, the Subcontracting Agreement was terminated, details of which are set out in the section headed "Compensation" above.

Financial information of the Target Group

Set out below is the unaudited financial information of the Target for the period from 11 October 2011 (i.e. date of incorporation) to 30 November 2011 prepared in accordance with the Hong Kong Financial Reporting Standards:

	For the period from 11 October 2011 (date of incorporation) to 30 November 2011
	<i>Unaudited</i>
	<i>HK\$</i>
Turnover	0
Profit before taxation	0
Profit after taxation	0
	As at
	30 November 2011
	<i>HK\$</i>
Net assets	8

Set out below is the unaudited consolidated financial information of the HK Group for the period from 21 October 2010 (i.e. date of incorporation) to 30 November 2011 prepared in accordance with the Hong Kong Financial Reporting Standards:

	For the period from 21 October 2010 (date of incorporation) to 30 November 2011
	<i>Unaudited</i>
	<i>HK\$</i>
Turnover	0
Loss before taxation	184,658
Loss after taxation	184,658
	As at
	30 November 2011
	<i>HK\$</i>
Net liabilities	184,435

REASONS FOR THE ACQUISITION

The Group is principally engaged in manufacturing and sales of household products.

As stated in the Quarterly Report, the Group's financial performance was not satisfactory for the nine months ended 30 September 2011 mainly due to the macro-control policies over housing market in the PRC and the downward pressure on the financial market arising from the European debt crisis. To broaden its income stream so as to reduce its dependence on the under-performed household products division, the Group commenced its funeral business including development, management and operation of funeral consultation and agency services as well as trading of funeral-related products in the third quarter of 2011. For the three months ended 30 September 2011, revenue generated from the funeral business amounted to approximately HK\$7.6 million, representing approximately 15.3% of the total revenue of the Group. In view of such satisfactory performance of the funeral business, the Group strives to acquire assets similar to its existing business as stated in the Quarterly Report and thus the Acquisition is in line with the business strategy of the Group and will provide a prime opportunity for the Group to further develop its funeral business.

Upon Completion, the WFOE would be indirectly wholly owned by the Group and would, pursuant to the Subcontracting Agreement, become the sole subcontractor of the PRC Cemetery Company to provide all funeral-related services and products and assistance necessary for the operation of the Cemetery for 30 years from 1 December 2011 to 30 November 2041. As mentioned in the section headed "Information on the Target Group and the Cemetery", upon completion of its development, the Cemetery is able to accommodate (i) over 17,000 units of burial vaults for urns of Chinese citizens; (ii) over 2,700 units of burial vaults for coffins of overseas Chinese only as the Chinese citizens are not allowed to carry out coffin burial under the PRC laws; and (iii) over 21,000 units of columbaria for both overseas Chinese and Chinese citizens. The Target Group will assist in carrying out promotion campaigns through different channels in Hong Kong and PRC and arranging field visits to the Cemetery so as to boost the sales of the burial vaults or columbaria of the Cemetery. The Directors believe that the results of the WFOE and the Group would benefit from the development of the Cemetery and the promotion campaigns to be held in Hong Kong and the PRC.

According to the Statistics Yearbook for Guangdong Province 2010 issued by National Bureau of Statistics of China, the death rate of Guangdong Province in 2010 was 4.21 per 1,000 persons. Based on the population of Guangdong Province in 2010, the estimated death toll in Guangdong Province was approximately 440,000, which is expected to provide steady demand for urn burials and columbaria in Guangdong Province.

According to statistics released by Census and Statistics Department, the death toll in Hong Kong in 2009 and 2010 reached over 40,000, while number of coffin burials by overseas Chinese was over 700 annually from 2006 to 2010 according to statistics announced by Department of Civil Affairs of Guangdong Province (廣東省民政廳). Given (i) the steady demand for coffin burials from Hong Kong people and overseas Chinese; (ii) the limited number (i.e. nine) of licensed cemeteries in Guangdong Province which offers coffin burial for the overseas Chinese; and (iii) the geographical advantage of the Cemetery arising from the proximity of the Cemetery to the transportation hub in Luohu, Shenzhen, the Directors are optimistic about the sales of the Cemetery and thus the results of the WFOE.

In view of the above, the Directors (including the independent non-executive Directors) consider that the terms of the SP Agreement are fair and reasonable and the Acquisition is in the interests of the Company and the Shareholders as a whole.

GENERAL

The Acquisition constitutes a major transaction for the Company under Chapter 19 of the GEM Listing Rules and thus the SP Agreement and the transactions contemplated thereunder require the approval of the Shareholders by way of poll at the SGM. To the best of the Directors' knowledge, information and belief having made all reasonable enquiries, no Shareholder is required to abstain from voting to approve the ordinary resolution relating to the SP Agreement and the transactions contemplated thereunder at the SGM.

A circular containing, among other things, details of the SP Agreement and the Subcontracting Agreement, the financial information on the Group and the Target Group, the valuation report on the Target Group, the notice to convene the SGM and other information as required under the GEM Listing Rules will be despatched to the Shareholders on or before 10 January 2012.

DEFINITIONS

In this announcement, unless the context requires otherwise, the following terms have the meanings set out below:

“Acquisition”	the proposed acquisition of the Sale Share and the Sale Loan for a total consideration of HK\$80 million pursuant to terms and conditions of the SP Agreement
“Board”	board of Directors
“Business Day”	a day (excluding Saturday and any day on which a tropical cyclone warning no. 8 or above or a “black” rainstorm warning is hoisted or remains hoisted between 9:00 a.m. and 5:00 p.m.) on which licensed banks in Hong Kong are open for business
“BVI”	British Virgin Islands
“Cemetery”	惠東縣華僑墓園 (Huidung County Huaqiao Cemetery*), a licensed commercial cemetery located at Huidung County, Huizhou City, Guangdong Province with a site area of approximately 266,668 sq.m and accommodating burial vaults and columbaria

“Company”	FAVA International Holdings Limited, a company incorporated in Bermuda with limited liability, and the shares of which are listed on GEM (stock code: 08108)
“Completion”	completion of the SP Agreement
“Completion Date”	the date of Completion
“connected person(s)”	the meaning ascribed to it under the GEM Listing Rules
“Consideration”	the aggregate consideration for the Sale Share and the Sale Loan of HK\$80 million payable by the Purchaser to the Vendor under the SP Agreement
“Director(s)”	director(s) of the Company
“GEM”	the Growth Enterprise Market operated by the Stock Exchange
“GEM Listing Rules”	the Rules Governing the Listing of Securities on GEM
“Group”	the Company and its subsidiaries
“HK Company”	The Shrine Of Nansha Limited (明德山有限公司), a wholly-owned subsidiary of the Target incorporated in Hong Kong on 21 October 2010 with limited liability
“HK Group”	HK Company and the WFOE
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Independent Third Party/ies”	independent third party/ies who is/are not connected person(s) of the Company and is/are independent of the Company and connected persons of the Company
“Land”	the location of the Cemetery, being Huidong County, Huizhou City, Guangdong Province with a site area of approximately 266,668 sq.m
“PRC”	the People’s Republic of China excluding Hong Kong, Macau Special Administrative Region of the PRC and Taiwan for the purpose of this announcement

“PRC Cemetery Company”	惠東縣華僑墓園管理公司 (Huidong County Huaqiao Cemetery Management Company*), a collectively owned (集體所有制) company incorporated in the PRC
“Purchaser”	EMAX Venture Limited, a company incorporated in the BVI with limited liability and is indirectly wholly owned by the Company
“Quarterly Report”	the quarterly report of the Group for the nine months ended 30 September 2011
“RMB”	Renminbi, the lawful currency of the PRC
“Sale Loan”	the entire amount of the shareholder’s loan owing by the Target to the Vendor as at the Completion Date
“Sale Share”	1 share of US\$1.00 each in the capital of the Target representing entire issued share capital of the Target and is legally and beneficially held by the Vendor
“SGM”	the special general meeting of the Company to be convened and held to vote and approve, if thought fit, the ordinary resolution on the SP Agreement and the transactions contemplated thereunder
“Share(s)”	ordinary share(s) of HK\$0.002 each in the share capital of the Company
“Shareholder(s)”	holder(s) of the Share(s)
“SP Agreement”	the sale and purchase agreement dated 15 December 2011 entered into between the Purchaser and the Vendor in relation to the Acquisition
“sq.m”	square meter
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Subcontracting Agreement”	the agreement dated 15 December 2011 entered into between the WFOE and the PRC Cemetery Company in respect of the provision of all the funeral-related services and products, and assistance necessary for the operation of the Cemetery

“Target”	Profit Value Group Limited, a company incorporated in the BVI with limited liability
“Target Group”	Target and its subsidiaries
“Vendor”	Mr. Lau Chi Yan, Pierre
“WFOE”	明德堂貿易(深圳)有限公司 (Ming De Tang Trading (Shenzhen) Limited Company*), a wholly foreign owned enterprise established in the PRC and wholly owned by the HK Company
“%”	per cent.

* *The English translations of the Chinese names are for identification purpose only. If there is any inconsistency between the English translations and the Chinese names, the Chinese version shall prevail.*

Hong Kong, 15 December 2011

By order of the Board
FAVA International Holdings Limited
Executive Director
LI Ge

As at the date of this announcement, the Board comprises Mr. Li Ge and Mr. Zhao Guo Wei as executive Directors, and Mr. Liu Qing Chen, Mr. Yang Jie and Mr. Yang Dongli as independent non-executive Directors.

This announcement, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with 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 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.

This announcement will remain on the GEM website at www.hkgem.com on the “Latest Company Announcements” page for at least seven days from the date of its posting and on the website of the Company at www.fava.com.hk.