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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: 8108)**

### **DISCLOSEABLE TRANSACTION IN RESPECT OF THE ACQUISITION OF FURNITURE RETAIL BUSINESS OF MR. XIU XIANLIU**

#### **THE ACQUISITION**

Reference is made to the announcement dated 8 January 2008 of the Company in relation to, inter alia, the Xiu LOI.

The Board is pleased to announce that, on 18 February 2008, Langfang Hengyu and Mr. Xiu entered into the Acquisition Agreement, pursuant to which Langfang Hengyu conditionally agreed to acquire, and Mr. Xiu conditionally agreed to sell, the Target Business at a consideration which equals to the Audited Net Profit multiplied by:

- (i) 3 times in the event that the Audited Net Profit is less than RMB7,000,000; or
- (ii) 3.5 times in the event that the Audited Net Profit is more than or equals to RMB7,000,000 but less than or equals to RMB9,000,000; or
- (iii) 4 times in the event that the Audited Net Profit exceeds RMB9,000,000.

However, for the purpose of calculating the Consideration, if the Audited Net Profit exceeds RMB9,000,000, it will be capped at RMB12,000,000. In other words, the Consideration will not exceed RMB48,000,000 in any event.

The Consideration shall be satisfied by Langfang Hengyu in RMB cash the following manners:

- (a) irrespective of the value of the Audited Net Profit, a prepayment in the amount of RMB8,400,000 shall be payable after five months but not later than eight months from the Completion Date. Such prepayment shall be payable in a lump sum and non-refundable;

- (b) the remaining balance of the Consideration (if any) shall be payable by the following installments:
- (i) 40% on the date of issue of the audit report in relation to the Audited Net Profit;
  - (ii) 40% on the date of issue of the audit report in relation to the Audited Net Profit in the Second Stage but in the event that the Audited Net Profit in the Second Stage is less than 125% of the Audited Net Profit, the shortfall (capped at the amount of this installment) shall be deducted from this installment; and
  - (iii) 20% on the date of issue of the audit report in relation to the Audited Net Profit in the Third Stage but in the event that the Audited Net Profit in the Third Stage is less than 150% of the Audited Net Profit, the shortfall (capped at the amount of this installment) shall be deducted from this installment.

The Directors (including the independent non-executive Directors) consider the terms and conditions of the Acquisition are fair and reasonable and in the interests of the Shareholders as a whole.

The Acquisition constitutes a discloseable transaction of the Company under Rule 19.06 of the GEM Listing Rules. A circular containing, among other things, details of the Acquisition and information required under the GEM Listing Rules will be despatched to the Shareholders as soon as practicable.

## THE ACQUISITION AGREEMENT

**Date:** 18 February 2008

**Parties:** Purchaser: Langfang Hengyu

Vendor: Mr. Xiu. To the best of the Directors' knowledge, information and belief having made all reasonable enquiries, Mr. Xiu and his associates are Independent Third Parties.

**Business to be acquired:** Pursuant to the Acquisition Agreement, Langfang Hengyu conditionally agreed to acquire the Target Business from Mr. Xiu.

## **Consideration**

Langfang Hengyu and Mr. Xiu entered into the Acquisition Agreement, pursuant to which Langfang Hengyu conditionally agreed to acquire, and Mr. Xiu conditionally agreed to sell, the Target Business at a consideration which equals to the Audited Net Profit multiplied by:

- (i) 3 times in the event that the Audited Net Profit is less than RMB7,000,000; or
- (ii) 3.5 times in the event that the Audited Net Profit is more than or equals to RMB7,000,000 but less than or equals to RMB9,000,000; or
- (iii) 4 times in the event that the Audited Net Profit exceeds RMB9,000,000.

However, for the purpose of calculating the Consideration, if the Audited Net Profit exceeds RMB9,000,000, it will be capped at RMB12,000,000. In other words, the Consideration will not exceed RMB48,000,000 in any event.

Langfang Hengyu shall procure that the Audited Net Profit figure to be obtained before 31 May 2009 and inform Mr. Xiu of the same.

## **Basis of Consideration**

The Consideration is determined after arm's length negotiation between Langfang Hengyu and Mr. Xiu on normal commercial terms with reference to the audited net profit to be generated from the Target Business for the twelve months ending 31 March 2009, multiplied by a price-to-earnings ratio.

The Directors (including the independent non-executive Directors) consider that such Consideration to be fair and reasonable and in the interests of the Shareholders as a whole.

## **Payment of Consideration**

The Consideration shall be satisfied by Langfang Hengyu in RMB cash in the following manners:

- (a) irrespective of the value of the Audited Net Profit, a prepayment in the amount of RMB8,400,000 shall be payable after five months but not later than eight months from the Completion Date. Such prepayment shall be payable in a lump sum and non-refundable;
- (b) the remaining balance of the Consideration (if any) shall be payable by the following installments:
  - (i) 40% on the date of issue of the audit report in relation to the Audited Net Profit;

- (ii) 40% on the date of issue of the audit report in relation to the Audited Net Profit in the Second Stage but in the event that the Audited Net Profit in the Second Stage is less than 125% of the Audited Net Profit, the shortfall (capped at the amount of this installment) shall be deducted from this installment; and
- (iii) 20% on the date of issue of the audit report in relation to the Audited Net Profit in the Third Stage but in the event that the Audited Net Profit in the Third Stage is less than 150% of the Audited Net Profit, the shortfall (capped at the amount of this installment) shall be deducted from this installment.

The Group intends to use its internal resources and/or bank borrowings (if necessary) to satisfy the Consideration.

### **Conditions Precedent**

Completion of the Acquisition is conditional on the fulfillment of the conditions precedent set out below:

- (a) all the title documents and records of the Target Business have been provided by Mr. Xiu to Langfang Hengyu and the results of the review on all these documents and records are being found satisfactory by Langfang Hengyu in the form of written notification to Mr. Xiu;
- (b) all the approvals and consents (if any) in respect of the Target Business to ensure Langfang Hengyu will become the legal and beneficial owner of the Target Business have been obtained;
- (c) stock take of inventory in relation to the Target Business as at the Reference Date has been finished by Mr. Xiu and the result is found satisfactory by Langfang Hengyu;
- (d) the Non-competition Undertaking has been executed by Mr. Xiu in favour of Langfang Hengyu;
- (e) the receipt by Langfang Hengyu of a PRC legal opinion in relation to the legality of the title of the Target Business and the transfer of title in a form acceptable to Langfang Hengyu;
- (f) any other documents which are requested by Langfang Hengyu.

### **Termination of the Acquisition Agreement**

The Acquisition Agreement will be terminated upon the occurrence of any of the following matters:

- (a) all the conditions precedent above are not either satisfied or waived by Langfang Hengyu (except for the condition precedent (d)) on or before 1 September 2008;
- (b) the mutual agreement between Langfang Hengyu and Mr. Xiu;

- (c) in the event that one party breaches any provision in the Acquisition Agreement, the other party may deliver a written notice to the defaulting party to request for remedy or ratification of such breach or may terminate the Acquisition Agreement immediately.

## **Completion**

The Completion of the Acquisition is expected to take place on the Completion Date when all the conditions precedent set out in the section headed “Conditions Precedent” in this announcement are either satisfied or waived by Langfang Hengyu (except for the condition precedent (d)).

Mr. Xiu has agreed and undertaken to Langfang Hengyu that, subsequent to the Completion, Mr. Xiu will continue or procure a designated third party to continue to assist in the operation and management of the Target Business during the period as requested by Langfang Hengyu.

## **Transfer of Ownership of the Target Business**

Mr. Xiu has agreed that Langfang Hengyu will be entitled to the ownership and all benefits and rights associated with the Target Business from the Completion Date.

Mr. Xiu will complete or assist Langfang Hengyu to complete all the filing or registration of the transfer of title of the Target Business in accordance with the relevant PRC laws and regulations within 30 Business Days after the Completion, or any other statutory timeframe (if such statutory timeframe is shorter than 30 Business Days). Mr. Xiu will further complete or assist Langfang Hengyu to complete all the transfer of the rights and benefits of Mr. Xiu in the contracts, agreements or undertakings in relation to the Target Business to Langfang Hengyu within 30 Business Days after the Completion. In the event that the registration process has to be extended, written consent will be obtained from Langfang Hengyu. All registration fees in connection with the transfer of title will be jointly borne by Langfang Hengyu and Mr. Xiu in accordance with the relevant PRC laws and regulations.

## **NON-COMPETITION UNDERTAKING BY MR. XIU**

Mr. Xiu has undertaken to Langfang Hengyu that, for a period of five years from the date of the signing of a non-competition undertaking dated 18 February 2008 (the “Non-competition Undertaking”):

- (a) (i) Mr. Xiu will not, in Dalian of Liaoning, Chongqing, Chengdu of Sichuan and Shanghai in the PRC, directly or indirectly, operate or participate in by any means any furniture retail business or any business similar to or same as the furniture retail business currently carried on by Langfang Hengyu or the Target Business (the “Restricted Business”), or hold any equity interest in any company engaged in the Restricted Business, or (ii) being employed by any person, company or organization which directly or indirectly participates in the Restricted Business;
- (b) Mr. Xiu will not directly or indirectly, employ or procure employment of the directors, general managers or deputy general managers of Langfang Hengyu;

- (c) Mr. Xiu will not, by themselves or on behalf of any person, recruit or solicit any directors, general managers or managerial staffs of the Company to join any companies other than Langfang Hengyu, no matter whether such persons are in breach of their employment or service contracts due to their departure.

All the undertakings above applies to Mr. Xiu and any companies whose 50% or above of the equity interests are owned by Mr. Xiu; all the directors, general managers and deputy general managers of the aforesaid companies, or any individuals who owns 50% or above of the equity interests of any of the aforesaid companies. If any person or company aforementioned breaches the undertakings (a), (b) and (c) above, Mr. Xiu will be deemed to have breached the Non-competition Undertaking.

## **INFORMATION ABOUT MR. XIU AND THE TARGET BUSINESS**

Mr. Xiu is a furniture retailer. To the best of the Directors' knowledge, information and belief having made all reasonable enquiries, Mr. Xiu and his associates are Independent Third Parties.

The Target Business to be acquired under the Acquisition Agreement consists of the retail business and assets of 2 furniture retail shops in Dalian, 5 furniture retail shops in Chongqing, 2 furniture retail shops in Chengdu and 11 furniture retail shops in Shanghai owned by Mr. Xiu as at the Reference Date (including but not limited to all the contracts, agreements or undertakings signed with any third parties and all the rights and benefits derived from them and inventory).

### **Financial information regarding the Target Business**

Based on the unaudited financial information in respect of the Target Business provided by Mr. Xiu, which is prepared in accordance with the PRC accounting standards, the turnover and the net profit before and after tax and extraordinary items attributable to the Target Business for the two years ended 31 December 2006 and the six months ended 30 June 2007 are set out as below:

	Year ended 31 December 2005 RMB	Year ended 31 December 2006 RMB	Six months ended 30 June 2007 RMB
Turnover	6,716,323.09	13,844,600.01	10,547,931.84
Net profit (before tax and extraordinary items)	1,505,085.12	2,627,535.45	3,175,402.69
Net profit (after tax and extraordinary items)	1,505,085.12	2,627,535.45	3,175,402.69

Based on the unaudited financial information in respect of the Target Business provided by Mr. Xiu, the asset value of the Target Business as at 31 December 2007 was approximately RMB7,858,556.

## **INFORMATION OF THE GROUP**

The Group is principally engaged in the manufacture and sale of household products, focusing on selling home furniture in the PRC and overseas markets.

## **BENEFITS OF AND REASONS FOR THE ACQUISITION**

As mentioned in the Company's latest interim report for the six months ended 30 June 2007, the Group aims to develop into a comprehensive enterprise providing a blend of production and retailing services.

The Directors are of the view that the Acquisition will enable the Group to explore new and consolidate its existing retail business and network in the PRC which is in line with the Group's business objective to develop its retail of business in the PRC.

The Directors (including the independent non-executive Directors) consider that the terms and conditions of the Acquisition are fair and reasonable and in the interests of the Shareholders as a whole.

## **GENERAL**

As the relevant percentage ratios pursuant to the GEM Listing Rules applicable to the Acquisition exceeds 5% but are below 25%, the Acquisition constitutes a discloseable transaction for the Company under the provisions of Chapter 19 of the GEM Listing Rules.

A circular containing, among other things, details of the Acquisition and information required under the GEM Listing Rules will be despatched to the Shareholders as soon as practicable.

## **DEFINITIONS**

In this announcement, unless the context otherwise requires, the following terms shall have the following meanings:

“Acquisition”	the acquisition of the Target Business under the Acquisition Agreement
“Acquisition Agreement”	the conditional acquisition agreement dated 18 February 2008 entered into between Langfang Hengyu and Mr. Xiu in respect of the Acquisition
“associates”	has the meaning ascribed to this term under the GEM Listing Rules
“Audited Net Profit”	the audited net profit of the Target Business for the period from 1 April 2008 to 31 March 2009

“Audited Net Profit in the Second Stage”	the audited net profit of the Target Business for the period from 1 April 2009 to 31 March 2010
“Audited Net Profit in the Third Stage”	the audited net profit of the Target Business for the period from 1 April 2010 to 31 March 2011
“Board”	the board of Directors
“Business Day(s)”	any day (excluding a Saturday and Sunday) on which banks generally are open for business in the PRC
“Company”	FAVA International Holdings Limited, a company incorporated in Bermuda with limited liability, the Shares of which are listed on the GEM
“Consideration”	the consideration for the Acquisition
“Completion”	all the conditions precedent as set out in the Acquisition Agreement are either satisfied or waived by Langfang Hengyu
“Completion Date”	the day on which all the conditions precedent as set out in the Acquisition Agreement are either satisfied or waived by Langfang Hengyu (or such other date as may be mutually agreed between Langfang Hengyu and Mr. Xiu in writing), which is also the date of transfer of the title of the Target Business
“Director(s)”	the director(s) of the Company
“GEM”	The Growth Enterprise Market of the Stock Exchange
“GEM Listing Rules”	the Rules Governing the Listing of Securities on GEM
“Group”	the Company and its subsidiaries
“Hong Kong”	the Hong Kong Special Administrative Region of the People’s Republic of China
“HK\$”	Hong Kong dollar, the lawful currency of Hong Kong
“Independent Third Parties”	parties which are independent of and not connected with any of the directors, chief executives, substantial shareholders or management shareholders of the Company or any of its subsidiaries or any of their respective associates (as defined in the GEM Listing Rules)



“Langfang Hengyu”	Langfang Huari Hengyu Home Co., Ltd* (廊坊華日恒宇家居有限公司), a company incorporated in the PRC and is an indirect wholly-owned subsidiary of the Company
“Mr. Xiu”	Mr. Xiu Xian Liu (修先陸先生), who is the owner of the Target Business
“PRC”	the People’s Republic of China, which for the purpose of this announcement, excludes Hong Kong, Macau Special Administrative Region and Taiwan
“Reference Date”	1 April 2008
“RMB”	Renminbi, the lawful currency of the PRC
“Share(s)”	ordinary share(s) of HK\$0.002 each in the share capital of the Company
“Shareholder(s)”	holder(s) of the Shares
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Target Business”	the business to be acquired under the Acquisition Agreement including the retail business and assets of 2 furniture retail shops in Dalian, 5 furniture retail shops in Chongqing, 2 furniture retail shops in Chengdu and 11 furniture retail shops in Shanghai owned by Mr. Xiu as at the Reference Date (including but not limited to all the contracts, agreements or undertakings signed with any third parties and all the rights and benefits derived from them and inventory)
“Xiu LOI”	the letter of intent dated 7 January 2008 and entered into between Langfang Hengyu and Mr. Xiu setting out the basic understanding between the parties thereto in connection with the Acquisition
“%”	per cent

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

Hong Kong, 19 February 2008

*As at the date of this announcement, the Board comprises Mr. Li Ge and Mr. Zhao Guo Wei as executive Directors, and Mr. Lee Yuen Kwong, 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 enquiries, confirm that, to the best of their knowledge and belief: (1) the information contained in this announcement is accurate and complete in all material respects and not misleading; (2) there are no other matters the omission of which would make any statement in this announcement misleading; and (3) all opinions expressed in this announcement have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.*

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*\* For identification purposes only*