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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)

ISSUE OF CONVERTIBLE NOTES UNDER GENERAL MANDATE

ISSUE OF CONVERTIBLE NOTES

On 3 September 2012 (after trading hours), the Company and the Subscriber entered into the Subscription Agreement in respect of the issue of the Convertible Notes in the principal amount of HK\$35,000,000. Completion of the Subscription is subject to the conditions as set out in the paragraph headed “Conditions precedent” below. Detailed terms of the Convertible Notes are set out in the paragraph headed “Principal terms of the Convertible Notes”.

The net proceeds from the Convertible Notes of approximately HK\$34,500,000 will be used (i) as to approximately HK\$20,000,000 for repayment of loan; and (ii) as to approximately HK\$14,500,000 for the general working capital of the Group.

As at the date of this announcement, the Company has a total of 1,758,355,970 Shares. Assuming full conversion of the Convertible Notes at the initial Conversion Price of HK\$0.10 per Share, a total of 350,000,000 Conversion Shares will be allotted and issued, representing (i) approximately 19.90% of the issued share capital of the Company as at the date of this announcement; and (ii) approximately 16.60% of the issued share capital of the Company as enlarged by the allotment and issue of the Conversion Shares.

The Conversion Shares falling to be allotted and issued upon exercise of the conversion rights attached to the Convertible Notes will be issued under the General Mandate.

No application will be made for the listing of the Convertible Notes on the Stock Exchange or any other stock exchange. An application will be made by the Company for the listing of, and permission to deal in, the Conversion Shares.

SUBSCRIPTION AGREEMENT

1. Parties and Date

Date: 3 September 2012

Issuer: The Company

Subscriber: The Subscriber

The Subscriber is a corporate investor and is principally engaged in business relating to money lending and provision of finance. As at the date of this announcement, to the best of the knowledge, information and belief of the Directors and having made all reasonable enquires, each of the Subscriber, its ultimate beneficial owners and their respective associates is an Independent Third Party.

2. Principal terms of the Convertible Notes

The principal terms of the Convertible Notes are arrived at after arm's length negotiations between the Company and the Subscriber and are summarised as follows:

Principal amount : HK\$35,000,000

Interest rate : the Convertible Notes shall carry an interest of 42% per annum payable in arrears monthly

Maturity date : Unless previously redeemed, repurchased and cancelled or converted, any outstanding Convertible Notes shall be redeemed on the date falling on four months from the date of issue of the Convertible Note or, subject to the agreement between the Noteholder(s) and the Company, extended to the date falling eight months from the date of issue of the Convertible Notes.

Status : The Convertible Notes are secured by the Share Charges and constitute direct, unsubordinated and secured obligations of the Company and rank equally among themselves.

Conversion : The Noteholder will have the right to convert the whole or part of the principal amount of the Convertible Notes into Conversion Shares in amounts of not less than a whole multiple of HK\$5,000,000 on each conversion.

- Conversion period : The Noteholder(s) shall have the right to convert the whole or part of the principal amount of the Convertible Notes into Conversion Shares on the date falling three (3) Business Days prior to the Maturity Date at the then prevailing conversion price.
- Conversion Price : The Conversion Price is initially HK\$0.10 per Share, subject to adjustment for subdivision or consolidation of Shares.
- Save and except for the adjustments of the Conversion Price in relation to share consolidation or share subdivision, the number of Conversion Shares to be issued under the Convertible Notes shall not be more than the limit under the General Mandate.
- Redemption : Neither the Company nor the Noteholder(s) shall have any right to redeem any portion of the outstanding Convertible Notes.
- Voting : The Noteholder will not be entitled to attend or vote at any general meeting of the Company by reason only of it being the Noteholder.
- Listing : No application will be made for the listing of the Convertible Notes on the Stock Exchange or any other stock exchange. An application will be made by the Company for the listing of, and permission to deal in, the Conversion Shares.
- Transferability : The Convertible Notes may be transferred to any transferee provided that any proposed transfer to a connected person of the Company or its associates shall be subject to the prior consent of the Company and in compliance with the GEM Listing Rules.

Based on the initial Conversion Price of HK\$0.10 per Conversion Share, a total number of 350,000,000 Conversion Shares will be allotted and issued upon exercise of the conversion rights attached to the Convertible Notes in full, which represent: (i) approximately 19.90% of the issued share capital of the Company as at the date of this announcement; and (ii) approximately 16.60% of the issued share capital of the Company as to be enlarged by the allotment and issue of the Conversion Shares to be allotted and issued upon the exercise of the conversion rights attaching to the Convertible Notes in full.

The Conversion Shares will rank pari passu in all respects with the Shares in issue as at the date of allotment and issue of the Conversion Shares.

The initial Conversion Price of HK\$0.10 per Conversion Share was arrived at after arm's length negotiation between the Company and the Subscriber with reference to the recent performance of the Shares and current market conditions. The initial Conversion Price of HK\$0.10 per Conversion Share represents:

- (i) a discount of 7.41% to the closing price of HK\$0.108 per Share as quoted on the Stock Exchange on the Last Trading Day;
- (ii) a discount of approximately 4.94% to the average of the closing prices per Share of HK\$0.1052 for the last five trading days prior to the date of the Subscription Agreement;
- (iii) a discount of approximately 6.10% to the average of the closing prices per Share of HK\$0.1065 for the last ten trading days prior to the date of the Subscription Agreement; and
- (iv) a discount of approximately 22.48% to the unaudited net asset value per Share of approximately HK\$0.129 as at 30 June 2012 (based on the unaudited equity attributable to owners of the Company shown in the published unaudited interim financial statements for the six months ended 30 June 2012 divided by 1,758,355,970 Shares in issue).

3. Conditions precedent

Completion is conditional upon the fulfillment (or waiver) of the following conditions precedent:

- (i) all necessary consents and approvals required to be obtained on the part of the Company and the Subscriber in respect of the Subscription Agreement and the transactions contemplated thereunder having been obtained;
- (ii) the GEM Listing Committee of the Stock Exchange granting listing of and permission to deal in the Conversion Shares falling to be issued on the exercise of the conversion rights attached to the Convertible Notes;
- (iii) the Share Charges having been duly executed and delivered to the Subscriber;
- (iv) the Deed of Release having been duly executed and delivered to the Subscriber; and

- (v) there shall not be any change, or development or event likely to involve a prospective change, in the condition (financial or otherwise), results of operations, business or properties of the Group taken as whole, which is material and adverse and which makes it impracticable to subscribe for the Convertible Notes on the terms and in the manner contemplated therein.

If any of the conditions has not been fulfilled on or before 30 September 2012, or such other date as the parties may agree, the Subscription Agreement shall lapse and none of the parties to the Subscription Agreement shall have any obligations and liabilities towards each other save for any prior breaches of the terms of the Subscription Agreement.

4. Completion

Completion shall take place on or before the third Business Day following the date on which the above conditions are fulfilled (or such other date as the parties to the Subscription Agreement may agree).

REASON FOR THE ISSUE OF CONVERTIBLE NOTES AND USE OF PROCEEDS

The Company is an investment holding company. The Group is principally engaged in the manufacturing and sales of household products. During the third quarter of year 2011, the Group commenced its business in the funeral services industry, which mainly includes the development, management and operation of funeral consultation and agency services as well as the trading of funeral-related products.

The Directors consider that the issue of the Convertible Notes will provide the Company with immediate funding without immediate dilution of the shareholding of the existing Shareholders and, if the conversion rights attached to the Convertible Notes are exercised, the capital base of the Company will be enlarged.

The Directors consider that the terms of the Subscription Agreement, which were arrived at after arm's length negotiations between the Company and the Subscriber, are fair and reasonable and are in the interests of the Company and the Shareholders as a whole. The net proceeds from the issue of the Convertible Notes of approximately HK\$34,500,000 will be used (i) as to approximately HK\$20,000,000 for repayment of loan; and (ii) as to approximately HK\$14,500,000 for the general working capital of the Group.

SHAREHOLDING STRUCTURE

The shareholding structure of the Company as at the date of this announcement and immediately after the full conversion of the Convertible Notes is as follows (assuming there being no other change in the share capital of the Company):

Shareholders	As at the date this announcement		Immediately after the issue and allotment of the Conversion Shares upon full conversion of the Convertible Notes	
	No. of Shares	Approximate	No. of Shares	Approximate
		%		%
True Allied Assets Limited (<i>Note 1</i>)	351,598,000	19.99	351,598,000	16.68
Mr. Li Ge (<i>Note 1</i>)	<u>160,548,000</u>	<u>9.13</u>	<u>160,548,000</u>	<u>7.61</u>
	512,146,000	29.12	512,146,000	24.29
The Subscriber	–	–	350,000,000	16.60
Other public Shareholders	<u>1,246,209,970</u>	<u>70.88</u>	<u>1,246,209,970</u>	<u>59.11</u>
Total	<u><u>1,758,355,970</u></u>	<u><u>100.00</u></u>	<u><u>2,108,355,970</u></u>	<u><u>100.00</u></u>

Note 1: The entire issued shares of True Allied Assets Limited are beneficially owned by Mr. Li Ge, an executive Director.

FUND RAISING ACTIVITIES IN THE PAST TWELVE MONTHS PRIOR TO THE DATE OF THIS ANNOUNCEMENT

The Company has not conducted any fund raising activities in the past twelve months before the date of this announcement.

GENERAL MANDATE

The Conversion Shares will be issued under the General Mandate to allot, issue and deal with Shares granted to the Directors at the AGM. Under the General Mandate, up to 351,671,194 Shares (being the maximum number of Shares issuable under the General Mandate granted to the Directors) can be issued. The General Mandate has not been previously utilised prior to the date of this announcement. The Conversion Shares, being a maximum of 350,000,000 Shares to be issued upon the exercise in full of the conversion rights attaching to the Convertible Bonds based on the initial Conversion Price, will be issued under the General Mandate and not subject to the Shareholders' approval.

DEFINITIONS

In this announcement, unless the context otherwise requires, the following words and expressions shall have the meaning ascribed to them below:

“Able Profit”	means Able Profit (Hong Kong) Limited, a company incorporated in Hong Kong with limited liability and a wholly-owned subsidiary of EMAX Venture
“AGM”	the annual general meeting of the Company held on 7 May 2012
“associate(s)”	has the meaning ascribed thereto in the GEM Listing Rules
“Board”	board of the Directors
“Business Day(s)”	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
“Company”	FAVA International Holdings Limited, a company incorporated in Bermuda with limited liability, the shares of which are listed on the GEM
“Completion”	completion of the Subscription Agreement in accordance with the terms and conditions of the Subscription Agreement
“Completion Date”	date of Completion
“Conditions”	the terms and conditions endorsed on the Convertible Notes in definitive form as they may from time to time be modified in accordance with their provisions
“connected person(s)”	has the meaning ascribed thereto in the GEM Listing Rules
“Conversion Price”	the initial conversion price of HK\$0.10 (subject to adjustment) per Conversion Share upon exercise of the conversion rights attaching to the Convertible Notes
“Conversion Share(s)”	the new Share(s) which may fall to be allotted and issued upon exercise of the conversion rights attaching to the Convertible Notes, at the then effective conversion price

“Convertible Note(s)”	the 42% coupon secured convertible notes due in the year 2013 in an aggregate principal amount of HK\$35,000,000 to be issued by the Company to the Subscriber pursuant to the Subscription Agreement, secured by the Share Charges
“Deed of Release”	the deed of release in respect of the Existing Share Charge to be executed by, among others, the lender under the loan agreement dated 30 March 2012
“Director(s)”	director(s) of the Company
“EMAX Venture”	EMAX Venture Limited, a company incorporated in the British Virgin Islands with limited liability and a wholly-owned subsidiary of the Issuer
“Existing Share Charge”	means the share charge with respect to the entire issued shares of South China in favour of the lender under the loan agreement dated 30 March 2012
“GEM”	the Growth Enterprise Market of the Stock Exchange
“GEM Listing Rules”	the Rules Governing the Listing of Securities on GEM
“General Mandate”	the mandate granted to the Directors by the Shareholders at the AGM to allot, issue and deal with up to 20% of the then issued share capital of the Company as at the date of the AGM
“Group”	the Company and its subsidiaries
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Independent Third Party(ies)”	any person(s) or company(ies) and their respective ultimate beneficial owner(s) whom, to the best of the Directors’ knowledge, information and belief having made all reasonable enquiries, are third parties independent of the Company and the connected persons of the Company
“Last Trading Day”	3 September 2012, being the last trading day prior to publication this announcement
“Maturity Date”	the date falling four months from the date of issue of the Convertible Notes or, subject to the agreement between the Noteholder(s) and the Company, extended to the date falling eight months from the date of issue of the Convertible Notes

“Noteholder(s)”	holder(s) of the Convertible Note(s)
“Share(s)”	ordinary share(s) of HK\$0.002 each in the share capital of the Company
“Share Charges”	means the Share Charge (Able Profit), the Share Charge (South China) and Share Charge (EMAX Venture)
“Share Charge (Able Profit)”	means the share charge with respect to the entire issued shares of Able Profit to be executed by EMAX Venture Limited in favour of the Subscriber
“Share Charge (EMAX Venture)”	means the share charge with respect to the entire issued shares of EMAX Venture to be executed in favour of the Subscriber
“Share Charge (South China)”	means the 60% Share Charge (South China) and the 40% Share Charge (South China)
“40% Share Charge (South China)”	means the share charge with respect to 40% shareholding of South China to be executed by Law Sin King and Yuen Hoi Chun Jackson in favour of the Subscriber
“60% Share Charge (South China)”	means the share charge with respect to 60% shareholding of South China to be executed by Able Profit in favour of the Subscriber
“Shareholder(s)”	holder(s) of the issued Share(s)
“South China”	means South China Memorial Park & Funeral Service Limited, a company incorporated in Hong Kong with limited liability and is owned as to 60% by Able Profit, as to 35% by Law Sin King and as to 5% by Yuen Hoi Chun Jackson
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Subscriber”	Sun Finance Company Limited, being the subscriber under the Subscription Agreement
“Subscription”	the subscription for the Convertible Notes by the Subscriber pursuant to the terms of the Subscription Agreement
“Subscription Agreement”	the subscription agreement dated 3 September 2012 and entered into between the Company and the Subscriber in relation to the Subscription

“HK\$” Hong Kong dollars, the lawful currency of Hong Kong

“%” per cent.

By order of the Board
FAVA INTERNATIONAL HOLDINGS LIMITED
LI Ge
Executive Director

Hong Kong, 3 September 2012

As at the date of this announcement, the Board comprises Mr. Li Ge, Mr. Zhao Guo Wei and Mr. Sun, Miguel as executive Directors, and Mr. Liu Qing Chen, Mr. Yang Dongli and Mr. Zhang Chun Qiang 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 day of its posting and on the website of the Company at www.fava.com.hk.

** For identification purpose only*