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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)

### **LETTER OF INTENT**

### **IN RESPECT OF**

### **THE PROPOSED ACQUISITION OF MANUFACTURING AND**

### **WHOLESALE BUSINESS OF JIXIANGNIAO FURNITURE FACTORY**

### **AND**

### **RESUMPTION OF TRADING**

#### **THE PROPOSED ACQUISITION**

The Board is pleased to announce that on 18 September 2007, Langfang Hengyu, an indirect wholly owned subsidiary of the Company, entered into the LOI with Mr. Liu in respect of the Proposed Acquisition, at a proposed consideration divided into the following two components:

- (1) the audited value of the Target Business as at a reference date to be agreed between the parties which is payable when the formal sale and purchase agreement is signed; and
- (2) an amount to be calculated by reference to the audited net profit of the Target Business for the year ending 31 December 2008 and in accordance with the following formula:

$$A \times B - C$$

whereas,

A = the audited net profit of the Target Business for the year ending 31 December 2008

B = price to earnings ratio

C = the audited value of the Target Business as referred to in component (1) above

- (a) if A is between RMB10 million (inclusive) and RMB12 million (inclusive), then B is 6;
- (b) if A is less than RMB10 million but more than or equals to RMB8 million, then B is 5;
- (c) if A is less than RMB8 million but more than or equals to RMB6 million, then B is 4;
- (d) if A is less than RMB6 million, then B is zero, that means component (1) above is the total consideration of the Proposed Acquisition;
- (e) if A exceeds RMB12 million (for the purpose of this paragraph(e), A is capped at RMB15 million), then component (2) of the consideration of the Proposed Acquisition shall be calculated as follows:

$$\text{RMB12 million} \times B + (A - \text{RMB12 million}) \times 50\% - C$$

whereas,

$$B = 6$$

C = the audited value of the Target Business as referred to in component (1) above

Component (2) of the consideration of the Proposed Acquisition shall be payable according to the below time table:

- (i) 30% on 30 April 2009;
- (ii) 30% on 30 April 2010 (if the audited net profit of the Target Business for the year ending 31 December 2009 exceeds the audited net profit for the year ending 31 December 2008 multiplied by 110%, then Langfang Hengyu shall pay Mr. Liu an extra amount equivalent to 50% of the difference between the two amounts as bonus; on the other hand, if the audited net profit of the Target Business for the year ending 31 December 2009 is less than the audited net profit for the year ending 31 December 2008 multiplied by 110%, then the difference shall be deducted in this installment);
- (iii) 40% on 30 April 2011 (if the audited net profit of the Target Business for the year ending 31 December 2010 exceeds the audited net profit for the year ending 31 December 2009 multiplied by 110%, then Langfang Hengyu shall pay Mr. Liu an extra amount equivalent to 50% of the difference between the two amounts as bonus; on the other hand, if the audited net profit of the Target Business for the year ending 31 December 2010 is less than the audited net profit for the year ending 31 December 2009 multiplied by 110%, then the difference shall be deducted in this installment).

The LOI does not constitute the parties' legally binding commitments as to the Proposed Acquisition, which is subject to the execution and completion of formal sale and purchase agreement by the parties. However, the LOI constitutes legally binding obligation on the part of Mr. Liu in favour of Langfang Hengyu under which, inter alia, Mr. Liu will not contact, negotiate, discuss, consider or enter into contract, whether directly or indirectly with, any third party (other than the professional advisers of himself and Langfang Hengyu) in relation to the Proposed Acquisition within six months from the date of the LOI (subject to extension by agreement of the relevant parties in writing).

Mr. Liu is the spouse of Ms. Huang Ye Hua, who is the sole shareholder of True Allied Assets Limited, a substantial shareholder of the Company. As such, Mr. Liu is regarded as a connected person of the Company under Chapter 20 of the GEM Listing Rules.

The Proposed Acquisition, if materializes, will constitute a connected transaction under the provisions of Chapter 20 of the GEM Listing Rules and may or may not constitute notifiable transactions for the Company under the provisions of Chapter 19 of the GEM Listing Rules. The Company shall comply with the relevant disclosures, reporting and independent shareholders' approval requirements of the GEM Listing Rules where appropriate. The Proposed Acquisition may or may not materialize. **Shareholders of the Company and the investing public are advised to exercise caution when dealing in the Shares.**

## **RESUMPTION OF TRADING IN THE SHARES**

At the request of the Company, trading in the Shares has been suspended with effect from 2:30 p.m. on 18 September 2007 pending the issue of this announcement. Application has been made by the Company for the resumption of trading in the Shares with effect from 9:30 a.m. on 19 September 2007.

## **THE PROPOSED ACQUISITION**

### **THE LOI**

**Parties:** Purchaser: Langfang Hengyu, an indirect wholly owned subsidiary of the Company

Vendor: Mr. Liu. Mr. Liu is the spouse of Ms. Huang Ye Hua, who is the sole shareholder of True Allied Assets Limited, a substantial shareholder of the Company. As such, Mr. Liu is regarded as a connected person of the Company under Chapter 20 of the GEM Listing Rules.

On 18 September 2007, Langfang Hengyu entered into the LOI with Mr. Liu in respect of the Proposed Acquisition, at a proposed consideration divided into the following two components:

- (1) the audited value of the Target Business as at a reference date to be agreed between the parties which is payable when the formal sale and purchase agreement is signed; and

- (2) an amount to be calculated by reference to the audited net profit of the Target Business for the year 31 December 2008 and in accordance with the following formula:

$$\mathbf{A \times B - C}$$

whereas,

A = the audited net profit of the Target Business for the year ending 31 December 2008

B = price to earnings ratio

C = the audited value of the Target Business as referred to component (1) above

- (a) if A is between RMB10 million (inclusive) and RMB12 million (inclusive), then B is 6;
- (b) if A is less than RMB10 million but more than or equals to RMB8 million, then B is 5;
- (c) if A is less than RMB8 million but more than or equals to RMB6 million, then B is 4;
- (d) if A is less than RMB6 million, then B is zero, that means component (1) above is the total consideration of the Proposed Acquisition;
- (e) if A exceeds RMB12 million (for the purpose of this paragraph(e), A is capped at RMB15 million), then component (2) of the consideration of the Proposed Acquisition shall be calculated as follows:

$$\mathbf{RMB12 \text{ million} \times B + (A - RMB12 \text{ million}) \times 50\% - C}$$

whereas,

B = 6

C = the audited value of the Target Business as referred to component (1) above

Component (2) of the consideration of the Proposed Acquisition shall be payable according to the below time table:

- (i) 30% on 30 April 2009;
- (ii) 30% on 30 April 2010 (if the audited net profit of the Target Business for the year ending 31 December 2009 exceeds the audited net profit for the year ending 31 December 2008 multiplied by 110%, then Langfang Hengyu shall pay Mr. Liu an extra amount equivalent to 50% of the difference between the two amounts as bonus; on the other hand, if the audited net profit of the Target Business for the year ending 31 December 2009 is less than the audited net profit for the year ending 31 December 2008 multiplied by 110%, then the difference shall be deducted in this installment);
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The valuation of the asset value of the Target Business, if carried out, will be performed by an independent valuer.

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

### **Exclusivity**

Under the LOI, Mr. Liu has undertaken to Langfang Hengyu that he will not contact, negotiate, discuss, consider or enter into contract, whether directly or indirectly with, any third party (other than the professional advisers of himself and Langfang Hengyu) in relation to the Proposed Acquisition within six months from the date of the LOI (subject to extension by agreement of the parties in writing).

The LOI does not constitute the parties' legally binding commitments as to the Proposed Acquisition, which is subject to the execution and completion of formal sale and purchase agreement by the parties. However, the exclusivity provision in the LOI, as referred to in this paragraph "Exclusivity" under the section headed "The LOI" above constitutes the legally binding obligation on the part of Mr. Liu.

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

Mr. Liu is the spouse of Ms. Huang Ye Hua, who is the sole shareholder of True Allied Assets Limited, a substantial shareholder of the Company.

Based on the information provided by Mr. Liu, Jixiangniao Furniture Factory is principally engaged in the business of manufacturing and wholesaling of sofa, tea tables and living room furniture.

The Target Business to be acquired under the Proposed Acquisition consists of the business of manufacturing and wholesaling of sofa, tea tables and living room furniture and the relevant operating assets of Jixiangniao Furniture Factory but excluding any debts and liabilities

## **BENEFITS OF THE PROPOSED ACQUISITION**

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

The Directors are of the view that the Proposed Acquisition will broaden the product variety of the Group and enable the Group to expand its business into the sofa and tea tables sectors of the furniture industry.

## **GENERAL**

Mr. Liu is the spouse of Ms. Huang Ye Hua, who is the sole shareholder of True Allied Assets Limited, a substantial shareholder of the Company. As such, Mr. Liu is regarded as a connected person of the Company under Chapter 20 of the GEM Listing Rules.

The Proposed Acquisition, if materializes, will constitute a connected transaction under the provisions of Chapter 20 of the GEM Listing Rules and may or may not constitute notifiable transactions for the Company under the provisions of Chapter 19 of the GEM Listing Rules. The Company shall comply with the relevant disclosures, reporting and independent shareholders' approval requirements of the GEM Listing Rules where appropriate. The Proposed Acquisition may or may not materialize. **Shareholders of the Company and the investing public are advised to exercise caution when dealing in the Shares.**

## **RESUMPTION OF TRADING IN THE SHARES**

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## **DEFINITIONS**

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

“Board”	the board of Directors
“Company”	FAVA International Holdings Limited, a company incorporated in Bermuda with limited liability, the Shares of which are listed on the GEM
“connected person(s)”	has the meaning as defined in the GEM Listing Rules

“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
“Jixiangniao Furniture Factory”	Langfang Development Zone Yunpeng Road Jixiangniao Furniture Factory* (廊坊開發區雲鵬道吉祥鳥家具廠), a factory established in the PRC which engages in the business of manufacturing and wholesaling of sofa, tea tables and living room furniture
“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
“LOI”	the Letter of Intent dated 18 September 2007 and entered into between Langfang Hengyu and Mr. Liu setting out the basic understanding between the parties thereto in connection with the Proposed Acquisition
“Mr. Liu”	Mr. Liu Qian Jin (柳前進先生), the owner and operator of Jixiangniao Furniture Factory
“PRC”	the People’s Republic of China, which for the purpose of this announcement, excludes Hong Kong, Macau Special Administrative Region and Taiwan
“Proposed Acquisition”	the proposed acquisition by Langfang Hengyu of the Target Business, as contemplated under the LOI
“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 of manufacturing and wholesaling of sofa, tea tables and living room furniture and the relevant operating assets of Jixiangniao Furniture Factory but excluding any debts and liabilities
“HK\$”	Hong Kong dollar, the lawful currency of Hong Kong
“%”	per cent.

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

Hong Kong, 18 September 2007

*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.*

*This announcement will remain on the GEM website at [www.hkgem.com](http://www.hkgem.com) on the “Latest Company Announcements” page for at least seven days from the day of its posting.*

*\* For identification purposes only*