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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)

### **DISCLOSEABLE TRANSACTION – DISPOSAL OF THE BEIJING BUSINESS, SHANGHAI BUSINESS AND DALIAN BUSINESS**

#### **THE DISPOSAL**

On 14 June 2010, Hengyu entered into respectively the following agreements:

- (1) the Beijing Disposal Agreement with Mr. Zhou, pursuant to which Hengyu agreed to dispose of and Mr. Zhou agreed to acquire, the Beijing Business. The consideration for the Beijing Disposal is RMB49,683.53 (approximately HK\$56,515.02). The gross proceeds of RMB49,683.53 from the Beijing Disposal will be used as the Group's general working capital.
- (2) the Shanghai Disposal Agreement with Mr. Zhang, pursuant to which Hengyu agreed to dispose of and Mr. Zhang agreed to acquire, the Shanghai Business. The consideration for the Shanghai Disposal is RMB209,319.33 (approximately HK\$238,100.74). The gross proceeds of RMB209,319.33 from the Shanghai Disposal will be used as the Group's general working capital.
- (3) the Dalian Disposal Agreement with Mr. Huang, pursuant to which Hengyu agreed to dispose of and Mr. Huang agreed to acquire, the Dalian Business. The consideration for the Dalian Disposal is RMB1 (approximately HK\$1.1375). The gross proceeds of RMB1 from the Dalian Disposal will be used as the Group's general working capital.

## **GEM LISTING RULES IMPLICATIONS**

Since the relevant percentage ratios (as defined under the GEM Listing Rules) in respect of the Beijing Disposal, the Shanghai Disposal and the Dalian Disposal in aggregate are greater than 5% but less than 25%, the Beijing Disposal, the Shanghai Disposal and the Dalian Disposal aggregately constitute discloseable transactions of the Company under Chapter 19 of the GEM Listing Rules.

Further, as the relevant percentage ratios (as defined under the GEM Listing Rules) in respect of the Dalian Disposal are less than 5%, the Dalian Disposal itself does not constitute a discloseable transaction of the Company under Chapter 19 of the GEM Listing Rules.

## **THE BEIJING DISPOSAL AGREEMENT**

### **Date**

14 June 2010

### **Parties to the Beijing Disposal Agreement**

- (i) Hengyu, as the vendor
- (ii) Mr. Zhou, as the purchaser

To the best of the Directors' knowledge, information and belief, and having made all reasonable enquiries, the Group has not had any prior transactions with Mr. Zhou during the 12 months immediately prior to the date of the Beijing Disposal Agreement which should be aggregated with the Beijing Disposal under Rule 19.22 of the GEM Listing Rules. Save as the Business Relationship, Mr. Zhou is an Independent Third Party.

### **Information about the Beijing Business**

The entire interests of the Beijing Business are owned by Hengyu.

The Beijing Business is principally engaged in the retail business of furniture in Beijing, the PRC.

The Beijing Business to be disposed of by Hengyu under the Beijing Disposal Agreement and the assets and liabilities in connection therewith shall include but not limited to all of the rights, interests and obligations under the contracts, agreements or undertakings entered into with any third parties in respect of the aforesaid business, assets and liabilities.

## Financial information regarding the Beijing Business

Based on the financial information regarding the Beijing Business, which is included in the audited consolidated financial statement of the Group for the two years ended 31 December 2009, the turnover and the net profit or net loss before and after tax and extraordinary items attributable to the Beijing Business are set out as below:

	<b>For the year ended 31 December 2008</b>	<b>For the year ended 31 December 2009</b>
	<i>RMB'000</i>	<i>RMB'000</i>
Turnover	22,304	9,256
(Net loss)/net profit before tax and extraordinary items	(7,033)	1,429
(Net loss)/net profit after tax and extraordinary items	(7,033)	1,429

The unaudited net asset value of the Beijing Business as at the Reference Date is RMB49,683.53.

## Completion of the Beijing Disposal Agreement

Completion of the Beijing Disposal will take place on the date on which the Beijing Disposal Agreement is duly entered into between the parties to the Beijing Disposal Agreement.

## Consideration

The consideration of RMB49,683.53 (approximately HK\$56,515.02) for the disposal of the Beijing Business is payable by Mr. Zhou in RMB cash within one month from the signing of the Beijing Disposal Agreement.

The consideration for the Beijing Disposal of RMB49,683.53 was arrived at after arm's length negotiation between Hengyu and Mr. Zhou, with reference to the net asset value of the Beijing Business as at the Reference Date of RMB49,683.53.

## Financial effects of the Beijing Disposal

Upon the completion of the Beijing Disposal, the Group will no longer own any interests in the Beijing Business and their assets, liabilities and financial results will not be consolidated into the financial statements of the Group.

The Group expects that no profit or loss will be recorded for the Beijing Disposal as the consideration for the disposal of the Beijing Business equals to its net asset value as at the Reference Date.

## **BEIJING CONTRACTING TERMINATION AGREEMENT**

Hengyu and Mr. Song entered into the Beijing Contracting Agreement on 25 August 2009, which provided for a contracting operation period of two years and three months commencing from 1 October 2009.

Hengyu and Mr. Song entered into the Beijing Contracting Termination Agreement on 14 June 2010 with effect from the date of signing of the agreement. Any outstanding obligations (if any) of Hengyu and Mr. Song under the Beijing Contracting Agreement as at the Reference Date shall be immediately released and cease to have any effect, without prejudice to any antecedent rights and obligations of Hengyu and Mr. Song under the relevant documents.

## **THE SHANGHAI DISPOSAL AGREEMENT**

### **Date**

14 June 2010

### **Parties to the Shanghai Disposal Agreement**

- (i) Hengyu, as the vendor
- (ii) Mr. Zhang, as the purchaser

To the best of the Directors' knowledge, information and belief, and having made all reasonable enquiries, the Group has not had any prior transactions with Mr. Zhang during the 12 months immediately prior to the date of the Shanghai Disposal Agreement which should be aggregated with the Shanghai Disposal under Rule 19.22 of the GEM Listing Rules. Mr. Zhang is an Independent Third Party.

### **Information about the Shanghai Business**

The entire interests of the Shanghai Business are owned by Hengyu.

The Shanghai Business is principally engaged in the retail business of furniture in Shanghai, the PRC.

The Shanghai Business to be disposed of by Hengyu under the Shanghai Disposal Agreement and the assets and liabilities in connection therewith shall include but not limited to all of the rights, interests and obligations under the contracts, agreements or undertakings entered into with any third parties in respect of the aforesaid business, assets and liabilities.

## Financial information regarding the Shanghai Business

Based on the financial information regarding the Shanghai Business, which is included in the audited consolidated financial statement of the Group for the two years ended 31 December 2009, the turnover and the net profit or net loss before and after tax and extraordinary items attributable to the Shanghai Business are set out as below:

	<b>For the year ended 31 December 2008</b>	<b>For the year ended 31 December 2009</b>
	<i>RMB'000</i>	<i>RMB'000</i>
Turnover	5,385	6,438
(Net loss)/net profit before tax and extraordinary items	(3,200)	2,186
(Net loss)/net profit after tax and extraordinary items	(3,200)	2,186

The unaudited net asset value of the Shanghai Business as at the Reference Date is RMB209,319.33.

## Completion of the Shanghai Disposal Agreement

Completion of the Shanghai Disposal will take place on the date on which the Shanghai Disposal Agreement is duly entered into between the parties to the Shanghai Disposal Agreement.

## Consideration

The consideration of RMB209,319.33 (approximately HK\$238,100.74) for the disposal of the Shanghai Business is payable by Mr. Zhang in RMB cash within one month from the signing of the Shanghai Disposal Agreement.

The consideration for the Shanghai Disposal of RMB209,319.33 was arrived at after arm's length negotiation between Hengyu and Mr. Zhang, with reference to the net asset value of the Shanghai Business as at the Reference Date of RMB209,319.33.

## Financial effects of the Shanghai Disposal

Upon the completion of the Shanghai Disposal, the Group will no longer own any interests in the Shanghai Business and their assets, liabilities and financial results will not be consolidated into the financial statements of the Group.

The Group expects that no profit or loss will be recorded for the Shanghai Disposal as the consideration for the disposal of the Shanghai Business equals to its net asset value as at the Reference Date.

## **SHANGHAI CONTRACTING TERMINATION AGREEMENT**

Hengyu and Mr. Zhang entered into the Shanghai Contracting Agreement on 15 December 2009, which provided for a contracting operation period of two years commencing from 1 January 2010.

Hengyu and Mr. Zhang entered into the Shanghai Contracting Termination Agreement on 14 June 2010 with effect from the date of signing of the agreement. Any outstanding obligations (if any) of Hengyu and Mr. Zhang under the Shanghai Contracting Agreement as at the Reference Date shall be immediately released and cease to have any effect, without prejudice to any antecedent rights and obligations of Hengyu and Mr. Zhang under the relevant documents.

## **THE DALIAN DISPOSAL AGREEMENT**

### **Date**

14 June 2010

### **Parties to the Dalian Disposal Agreement**

- (i) Hengyu, as the vendor
- (ii) Mr. Huang, as the purchaser

To the best of the Directors' knowledge, information and belief, and having made all reasonable enquiries, the Group has not had any prior transactions with Mr. Huang during the 12 months immediately prior to the date of the Dalian Disposal Agreement which should be aggregated with the Dalian Disposal under Rule 19.22 of the GEM Listing Rules. Mr. Huang is an Independent Third Party.

### **Information about the Dalian Business**

The entire interests of the Dalian Business are owned by Hengyu.

The Dalian Business is principally engaged in the retail business of furniture in Dalian, the PRC.

The Dalian Business to be disposed of by Hengyu under the Dalian Disposal Agreement and the assets and liabilities in connection therewith shall include but not limited to all of the rights, interests and obligations under the contracts, agreements or undertakings entered into with any third parties in respect of the aforesaid business, assets and liabilities.

## Financial information regarding the Dalian Business

Based on the financial information regarding the Dalian Business, which is included in the audited consolidated financial statement of the Group for the two years ended 31 December 2009, the turnover and the net loss before and after tax and extraordinary items attributable to the Dalian Business are set out as below:

	<b>For the year ended 31 December 2008</b>	<b>For the year ended 31 December 2009</b>
	<i>RMB'000</i>	<i>RMB'000</i>
Turnover	2,234	1,952
(Net loss) before tax and extraordinary items	(1,023)	(385)
(Net loss) after tax and extraordinary items	(1,023)	(385)

The unaudited net asset value of the Dalian Business as at the Reference Date is nil.

## Completion of the Dalian Disposal Agreement

Completion of the Dalian Disposal will take place on the date on which the Dalian Disposal Agreement is duly entered into between the parties to the Dalian Disposal Agreement.

## Consideration

The consideration of RMB1 (approximately HK\$1.1375) for the disposal of the Dalian Business is payable by Mr. Huang in RMB cash within one month from the signing of the Dalian Disposal Agreement.

As the net asset value of Dalian Business as at the Reference Date is nil, the consideration for the Dalian Disposal is RMB1 after arm's length negotiation between Hengyu and Mr. Huang.

## Financial effects of the Dalian Disposal

Upon the completion of the Dalian Disposal, the Group will no longer own any interests in the Dalian Business and their assets, liabilities and financial results will not be consolidated into the financial statements of the Group.

The Group expects that the profit of RMB1 will be recorded for the Dalian Disposal, which is derived from the consideration of RMB1 from the disposal of the Dalian Business less its net asset value as at the Reference Date where the unaudited net asset value of the Dalian Business as at the Reference Date is nil.

## **DALIAN CONTRACTING TERMINATION AGREEMENT**

Hengyu and Mr. Huang entered into the Dalian Contracting Agreement on 15 December 2009, which provided for a contracting operation period of two years commencing from 1 January 2010.

Hengyu and Mr. Huang entered into the Dalian Contracting Termination Agreement on 14 June 2010 with effect from the date of signing of the agreement. Any outstanding obligations (if any) of Hengyu and Mr. Huang under the Dalian Contracting Agreement as at the Reference Date shall be immediately released and cease to have any effect, without prejudice to any antecedent rights and obligations of Hengyu and Mr. Huang under the relevant documents.

## **REASONS FOR AND BENEFITS OF THE BEIJING DISPOSAL, SHANGHAI DISPOSAL AND DALIAN DISPOSAL AND USE OF PROCEEDS**

As stated in the audited annual report for the year ended 31 December 2009 and the unaudited quarterly report for the three months ended 31 March 2010, the Group was severely impacted by the global financial crisis and its over-expansion during the early stage had led to overcapacity of factories and a rise in the production costs. After reviewing the business portfolio of the Group, the management of the Group decided to concentrate the financial and management resources of the Group on the manufacturing and sales business of household products mainly targeted at mid-to high-end customers and divest low-efficiency assets, and actively seek “light asset” operation and attempt to be principally engaged in trading. Accordingly, the Beijing Disposal, the Shanghai Disposal and the Dalian Disposal provide the Group with a good opportunity to divest low-efficiency assets and rationalize its business, and generate additional capital for the daily operations of the Group.

Taking into account of (i) the significant losses arising from the respective furniture businesses prior to the inclusion of the book profit arising from the divestment of negative assets under the respective contracting agreements in the retail business of the retail outlets in Beijing, Shanghai and Dalian over the past year; and (ii) the pressure from surging rents and labor costs as well as unfavorable sales performance faced by the retail outlets in Beijing, Shanghai and Dalian, the management is uncertain as to when the furniture retail business in Beijing, Shanghai and Dalian will record stable profitability. Accordingly, the Directors (including independent non-executive Directors) consider that the terms and conditions of the Beijing Disposal Agreement, the Shanghai Disposal Agreement and the Dalian Disposal Agreement (including the considerations for the Beijing Disposal, the Shanghai Disposal and the Dalian Disposal) are fair and reasonable and in the interests of the Company and its shareholders as a whole.

The gross proceeds of RMB49,683.53 from the Beijing Disposal will be used as the Group’s general working capital.

The gross proceeds of RMB209,319.33 from the Shanghai Disposal will be used as the Group’s general working capital.

The gross proceeds of RMB1 from the Dalain Disposal will be used as the Group’s general working capital.



## **INFORMATION OF THE GROUP**

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

## **GEM LISTING RULES IMPLICATIONS**

Since the relevant percentage ratios (as defined under the GEM Listing Rules) in respect of the Beijing Disposal, the Shanghai Disposal and the Dalian Disposal in aggregate are greater than 5% but less than 25%, the Beijing Disposal, the Shanghai Disposal and the Dalian Disposal aggregately constitute discloseable transactions of the Company under Chapter 19 of the GEM Listing Rules.

Further, as the relevant percentage ratios (as defined under the GEM Listing Rules) in respect of the Dalian Disposal are less than 5%, the Dalian Disposal itself does not constitute a discloseable transaction of the Company under Chapter 19 of the GEM Listing Rules.

## **GENERAL**

From the date of signing the Beijing Disposal Agreement, all economic and legal obligations and interests of Hengyu under the Beijing Business shall be borne and owned by Mr. Zhou.

From the date of signing the Shanghai Disposal Agreement, all economic and legal obligations and interests of Hengyu under the Shanghai Business shall be borne and owned by Mr. Zhang.

From the date of signing the Dalian Disposal Agreement, all economic and legal obligations and interests of Hengyu under the Dalian Business shall be borne and owned by Mr. Huang.

From the date of signing of the Beijing Contracting Termination Agreement, the Beijing Contracting Agreement shall be immediately terminated and cease to have any effect.

From the date of signing of the Shanghai Contracting Termination Agreement, the Shanghai Contracting Agreement shall be immediately terminated and cease to have any effect.

From the date of signing of the Dalian Contracting Termination Agreement, the Dalian Contracting Agreement shall be immediately terminated and cease to have any effect.

## DEFINITIONS

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

“Beijing Business”	the Beijing Retail Outlet Business owned by Hengyu as at the Reference Date
“Beijing Contracting Agreement”	the agreement for contracting operation of the Beijing Retail Outlet Business entered into between Hengyu and Mr. Song on 25 August 2009 for an operating term of two years and three months commencing from 1 October 2009 pursuant to which Mr. Song shall pay a contracting fee of RMB30,000 (3 months), RMB120,000 and RMB240,000 respectively to Hengyu in 2009, 2010 and 2011
“Beijing Contracting Termination Agreement”	the termination agreement entered into between Hengyu and Mr. Song on 14 June 2010 to terminate the Beijing Contracting Agreement of the contracting operation of the Beijing Retail Outlet Business commencing from the Reference Date
“Beijing Disposal”	the disposal of the Beijing Business under the Beijing Disposal Agreement
“Beijing Disposal Agreement”	the Beijing Disposal Agreement dated 14 June 2010 entered into between Hengyu and Mr. Zhou in respect of the Beijing Disposal
“Beijing Retail Outlet Business”	the furniture retail outlet in Beijing and its business
“Board”	the board of Directors of the Company
“Business Day(s)”	any day (excluding a Saturday and Sunday) on which banks generally are open for business in the PRC
“Business Relationship”	certain business relationship between Huari Furniture and Hengyu, including but not limited to Huari Furniture as lessor leases certain land and buildings to Hengyu as lessee. Such leased properties are used by Hengyu for production, office and storage
“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

“Dalian Business”	the Dalian Retail Outlet Business owned by Hengyu as at the Reference Date
“Dalian Contracting Agreement”	the agreement for contracting operation of the Dalian Retail Outlet Business entered into between Hengyu and Mr. Huang on 15 December 2009 for an operating term of two years commencing from 1 January 2010 pursuant to which Mr. Huang shall pay a contracting fee of RMB48,000 and RMB96,000 respectively to Hengyu in 2010 and 2011
“Dalian Contracting Termination Agreement”	the termination agreement entered into between Hengyu and Mr. Huang on 14 June 2010 to terminate the Dalian Contracting Agreement of the contracting operation of the Dalian Retail Outlet Business commencing from the Reference Date
“Dalian Disposal”	the disposal of the Dalian Business under the Dalian Disposal Agreement
“Dalian Disposal Agreement”	the Dalian Disposal Agreement dated 14 June 2010 entered into between Hengyu and Mr. Huang in respect of the Dalian Disposal
“Dalian Retail Outlet Business”	the furniture retail outlet in Dalian and its 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
“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
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Huari Furniture”	Lang Fang Huari Furniture Joint Stock Co., Ltd.* (廊坊華日家具股份有限公司), a joint stock limited company incorporated in the PRC with limited liability and is currently principally engaged in trading of construction materials; an aggregate of 98% equity interest of which is held by Mr. Zhou and his parents

“HK\$”	Hong Kong dollar, the lawful currency of Hong Kong
“Independent Third Party(ies)”	party(ies) which is(are) independent of and not connected with any of the directors, chief executives, management shareholders or substantial shareholders of the Company and its subsidiaries or any of their respective associates
“Mr. Huang”	Mr. Huang Bing Xiu, an Independent Third Party
“Mr. Song”	Mr. Song Guang Bin, an Independent Third Party
“Mr. Zhang”	Mr. Zhang Ming Liang, an Independent Third Party
“Mr. Zhou”	Mr. Zhou Xu En, an Independent Third Party save as the Business Relationship with Huari Furniture
“PRC”	the People’s Republic of China, which for the purpose of this announcement, excludes Hong Kong, Macau Special Administrative Region of the PRC and Taiwan
“Reference Date”	31 May 2010
“RMB”	Renminbi, the lawful currency of the PRC
“Shanghai Business”	the Shanghai Retail Outlet Business owned by Hengyu as at the Reference Date
“Shanghai Contracting Agreement”	the agreement for contracting operation of the Shanghai Retail Outlet Business entered into between Hengyu and Mr. Zhang on 15 December 2009 for an operating term of two years commencing from 1 January 2010 pursuant to which Mr. Zhang shall pay a contracting fee of RMB96,000 and RMB192,000 respectively to Hengyu in 2010 and 2011
“Shanghai Contracting Termination Agreement”	the termination agreement entered into between Hengyu and Mr. Zhang on 14 June 2010 to terminate the Shanghai Contracting Agreement of the contracting operation of the Shanghai Retail Outlet Business commencing from the Reference Date
“Shanghai Disposal”	the disposal of the Shanghai Business under the Shanghai Disposal Agreement

“Shanghai Disposal Agreement”	the Shanghai Disposal Agreement dated 14 June 2010 entered into between Hengyu and Mr. Zhang in respect of the Shanghai Disposal
“Shanghai Retail Outlet Business”	the furniture retail outlet in Shanghai and its business
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“%”	per cent

All amounts in RMB have been translated in HK\$ at a rate of RMB1 = HK\$1.1375 in this announcement for illustration purpose only.

By Order of the Board  
**FAVA International Holdings Limited**  
**Zhao Guo Wei**  
*Executive Director*

Hong Kong, 14 June 2010

*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: (i) the information contained in this announcement is accurate and complete in all material respects and not misleading; (ii) there are no other matters the omission of which would make any statement in this announcement misleading; and (iii) 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 pages of “Latest Company Announcements” on the GEM website at <http://www.hkgem.com> for at least 7 days from the date of its posting and on the website of the Company at <http://www.fava.com.hk>.*

\* *For identification purposes only*