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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)

MEMORANDUM OF UNDERSTANDING RELATING TO A POSSIBLE ACQUISITION; PLACING OF NEW SHARES UNDER GENERAL MANDATE AND RESUMPTION OF TRADING

MEMORANDUM OF UNDERSTANDING RELATING TO A POSSIBLE ACQUISITION

The Board announced that on 20 September 2010, the Purchaser entered into the Memorandum of Understanding with the Vendor, pursuant to which the Purchaser intended to acquire and the Vendor intended to sell 80% interest of the Target Company. The Target Group is principally engaged in the retail business of fashionable products and accessories in Hong Kong and the PRC.

The Memorandum of Understanding is non-legally binding save for certain provisions relating to the settlement method of the Consideration, confidentiality, exclusivity and governing law of the Memorandum of Understanding.

As the Memorandum of Understanding may or may not lead to the entering into of the Formal Agreement and the Proposed Acquisition may or may not proceed, Shareholders and potential investors are advised to exercise caution when dealing in the Shares.

In the event that the Proposed Acquisition materialises, it may constitute a notifiable transaction for the Company under the GEM Listing Rules. Further announcement(s) will be made by the Company in accordance with all applicable requirements of the GEM Listing Rules as and when appropriate.

THE PLACING

On 21 September 2010, the Company and the Placing Agent entered into the Placing Agreement pursuant to which the Company has conditionally agreed to place through the Placing Agent, on a best effort basis, up to 276,956,000 Placing Shares to independent placees at HK\$0.116 per Placing Share.

The 276,956,000 Placing Shares represent (i) approximately 19.80% of the existing issued share capital of the Company; and (ii) approximately 16.53% of the issued share capital of the Company as enlarged by the issue of the Placing Shares.

The net proceeds from the Placing is estimated to be approximately HK\$31.79 million, which will be used for general working capital of the Group and/or to fund potential acquisitions or investment opportunities, including but not limited to the Proposed Acquisition (if proceeded). The net proceeds raised per Placing Share is estimated to be approximately HK\$0.115.

SUSPENSION AND RESUMPTION OF TRADING IN SHARES

Trading in the Shares on the Stock Exchange was suspended at the request of the Company with effect from 9:30 a.m. on 20 September 2010 pending the release of this announcement. An application has been made to the Stock Exchange for resumption of trading in the Shares with effect from 2:30 p.m. on 21 September 2010.

The Board announces that on 20 September 2010, the Purchaser entered into the non-legally binding Memorandum of Understanding with the Vendor in relation to the Proposed Acquisition. After signing of the Memorandum of Understanding, the parties thereto shall enter into good faith negotiation for the Formal Agreement and other documentation and matters relating to the Proposed Acquisition and the provisions of the Memorandum of Understanding shall form the basis for the preparation of the said documents.

THE MEMORANDUM OF UNDERSTANDING

Date

20 September 2010

Parties

- (a) The Purchaser; and
- (b) the Vendor.

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

Asset to be acquired

Pursuant to the Memorandum of Understanding, the Purchaser intended to acquire and the Vendor intended to sell 80% interest of the Target Company.

Consideration

The Consideration will be further discussed and determined by the parties to the Memorandum of Understanding upon good faith negotiation and with reference to among other factors considered appropriate by the parties, a valuation of the Target Group or the Business to be prepared by a qualified valuer with agreed upon methodology and assumptions, which is currently expected to be in the range from HK\$600,000,000 to HK\$800,000,000.

Pursuant to the Memorandum of Understanding, the Purchaser shall pay HK\$40,000,000 to the Vendor within 30 days from the date of the Memorandum of Understanding (or such other dates or times as agreed between the Vendor and the Purchaser) as earnest money or deposit which is refundable (i) if the Formal Agreement and other legal documentation relating to the subject matter of the Memorandum of Understanding is not entered into by the respective parties on or before 29 October 2010 (or such later date as the Vendor and the Purchaser may agree in writing); or (ii) upon receiving the notification from the Purchaser that the results of the due diligence exercise on the Target Group to be conducted are not satisfactory to the Purchaser in its sole discretion.

Upon signing of the Formal Agreement, the Earnest Money will be applied as deposit and part payment of the Consideration.

The Consideration may be settled by way of cash, ordinary or preference shares or convertible bonds or promissory notes to be issued by the Company, or a combination of one or more of the aforesaid method(s) or other methods to be determined by the parties to the Memorandum of Understanding. The Company may conduct appropriate fund raising activities (such as rights issue or placing) to obtain financing for settlement of the Consideration in whole or in part thereof. If the Consideration shall be settled, among other methods, by way of ordinary or convertible preference shares or convertible bonds to be issued by the Company, the issue price (for ordinary shares) or the conversion price (for convertible preference shares or convertible bonds), as the case may be, shall be determined by the parties prior to finalisation of the Formal Agreement, and is currently expected to be a discount of approximately 15% to the average closing price of the Shares in the range of (i) 5 trading days; and (ii) 20 trading days immediately prior to the signing of the Memorandum of Understanding and that such issue/conversion price is currently expected to be not more than HK\$0.116 and is not less than HK\$0.107.

Conditions precedent

Signing and completion of the Formal Agreement is conditional upon (among others):

- (a) completion of business, financial and legal due diligence review, including but not limited to a pre-investment audit and legal due diligence to be conducted by professional advisers reporting to the Purchaser, and the results of which are satisfactory to the Purchaser in its sole discretion;
- (b) the Company may incorporate other conditions that it considers necessary during the course of due diligence;
- (c) the Company is in compliance with the requirements of the GEM Listing Rules (including the convening of general meeting(s) to approve the relevant transactions) or other rules or regulations to which the Company or any of its subsidiaries is subject; and
- (d) if the Purchaser requires, legal opinion(s) on each member of the Target Group in relation to its due incorporation, valid subsistence, and operation and management of the Business (including licensing, distribution and tenancy agreements concerned) in respect of relevant jurisdictions, including but not limited to Hong Kong, the PRC, Singapore, Taiwan and the United States of America.

Exclusivity

The Vendor agrees to grant an exclusive right to the Group under which, during the period of six months from the date of the Memorandum of Understanding, the Company shall be entitled on an exclusive basis to make investment in the Target Group or negotiate for cooperation with the Target Group.

INFORMATION ON THE TARGET GROUP

The Target Company is a limited liability company incorporated in Hong Kong. The Vendor currently holds 99% interests of the Target Company. The remaining 1% interest of the Target Company is held by a senior management of the Target Group. The Target Group is principally engaged in the retail business of fashionable products and accessories in Hong Kong and the PRC.

Founded in 1992, the Target Group is now a leading fashion and accessories retailing specialised in hip and stylish fashion brands in Hong Kong and the PRC. It mainly operates multi-label select stores (with a diverse collection of styles and branded products) and exclusive stores (with products of a single brand). Based on the information available to the Company so far, the Target Group currently distributes over 150 prestigious international brands through multi-label select stores. The Target Group also operates exclusive stores for international brands and has developed six in-house labels and production lines. The Target Group currently has more than 30 stores in Hong Kong and the PRC respectively.

Pursuant to the Memorandum of Understanding, the Formal Agreement shall contain a covenant that all trademarks and other intellectual properties for use in the Target Group's business worldwide whether in written form or not (including all improvements thereto) are owned by the Target Group or have been licensed to the Target Group for use.

Pursuant to the Memorandum of Understanding, the Purchaser may, at its absolute discretion, after or in the course of its due diligence exercise, requests the Vendor to procure a pre-acquisition reorganisation to be implemented whereby (i) the Target Group would be organised as subsidiaries of a holding company to be incorporated; and/or (ii) certain subsidiaries of the Target Company would be disposed of by the Target Company.

REASONS FOR THE PROPOSED ACQUISITION

The Group is principally engaged in the manufacturing and sales of household products. The Group has been experiencing a downward trend in net profit since 2007. The Group turned from net profit of approximately HK\$118.1 million for the year ended 31 December 2007 to net loss of approximately HK\$120.5 million for the year ended 31 December 2009. The deteriorating performance was mainly due to weak global economy, intensifying competition in the furniture industry, and hiking rents, wages and transportation costs. To address the rising production cost on capacity surplus as a result of the previous overexpansion, the Group disposed of most its underperforming and loss-making assets in the second quarter of 2010, including most self-operated retail shops and wholesale business mainly for low-end customers. Thus, the Group shall focus its financial and management resources on the manufacturing and sales of household products targeting mid-to-high-end consumers.

Being a leading fashion and accessories retailer specialised in hip and stylish fashion brands, the Target Group is also targeting mid-to-high-end consumers. The Directors are of the view that, while the Group continues its existing furniture business which includes, inter alia, retail operation through self-owned and franchise stores, the Proposed Acquisition represents a good opportunity for the Group to capitalise its experience in retail operation targeting mid-to-high-end consumers to expand into a retail business with track record which is targeting at the same class of consumers and has significant growth potential. The Directors consider that the Target Group is positioned to benefit from the strong growth of the PRC consumer goods industry driven by the rising Chinese middle class with surging disposable income, as well as people's constant pursuit of higher quality lifestyle.

As the Memorandum of Understanding may or may not lead to the entering into of the Formal Agreement and the Proposed Acquisition may or may not proceed, Shareholders and potential investors are advised to exercise caution when trading in the Shares.

In the event that the Proposed Acquisition materialises, it may constitute a notifiable transaction for the Company under the GEM Listing Rules. Further announcement(s) will be made by the Company in accordance with all applicable requirements of the GEM Listing Rules as and when appropriate.

The payment of the Earnest Money constitutes an advance to an entity for the Company under the GEM Listing Rules. Given that the amount of the Earnest Money exceeds 8% of the assets ratio of the Company as defined under Rule 19.07(1) of the GEM Listing Rules, the Company has in accordance with the requirement under Rule 17.17 of the GEM Listing Rules included the relevant disclosure in this announcement.

THE PLACING

On 21 September 2010, the Company entered into the Placing Agreement with the Placing Agent, pursuant to which the Company has conditionally agreed to place through the Placing Agent, on a best effort basis, up to 276,956,000 Placing Shares to independent placees at HK\$0.116 per Placing Share.

THE PLACING AGREEMENT

Date: 21 September 2010

Issuer: the Company

Placing Agent: Quam Securities Company Limited

The Placing Agent has conditionally agreed, on a best effort basis, to place up to 276,956,000 Placing Shares at the Placing Price and will receive a placing commission of 1% on the gross proceeds of the actual number of Placing Shares being successfully placed by it to independent placees under the Placing Agreement. The placing commission was arrived at after arm's length negotiations between the Company and the Placing Agent under normal commercial terms.

To the best of the knowledge, information and belief of the Directors, having made all reasonable enquiries, the Placing Agent and its ultimate beneficial owners are Independent Third Parties as at the date of the Placing Agreement.

Placees

The Placing Shares will be placed to not less than six Placees. Pursuant to the Placing Agreement, the Placing Shares shall be offered by the Placing Agents to the Placees whom the Placing Agent reasonably believes after making reasonable enquiries (including the obtaining of confirmation provided by the Company) to be independent investors not connected with the directors, chief executive or substantial shareholders (each term has the meaning ascribed to it in the GEM Listing Rules) of the Company and its subsidiaries or any of their respective associates (as defined in the GEM Listing Rules), during the period from the date of the Placing Agreement up to the date of completion of the Placing. In addition, the Placing Shares shall only be placed with such Placees which the Placing Agent reasonably believes after making reasonable enquiries that the shareholding of such Placee in the Company will not reach or exceed 10% of the issued share capital of the Company as enlarged by the allotment and issue of the Placing Shares as a result of taking up of such number of Placing Shares.

Placing Shares

The aggregate nominal value of the Placing Shares will be HK\$553,912. The 276,956,000 Placing Shares represent (i) approximately 19.80% of the existing issued share capital of the Company; and (ii) approximately 16.53% of the issued share capital of the Company as enlarged by the issue of the Placing Shares.

Mandate to issue the Placing Shares

The Placing Shares will be issued pursuant to the General Mandate granted to the Directors at the annual general meeting of the Company held on 6 May 2010. The Directors were authorised to allot and issue up to 276,959,994 Shares pursuant to the General Mandate. Up to the date of this announcement, the Directors have not utilised any part of the General Mandate to issue Shares. Accordingly, the issue of the Placing Shares is not subject to any approval by the Shareholders.

Ranking of the Placing Shares

The Placing Shares will rank pari passu in all respects with the Shares in issue on the date of allotment and issue of the Placing Shares.

Placing Price

The Placing Price of HK\$0.116 represents:

- (i) at par to the closing price of HK\$0.116 per Share on the Last Trading Day;
- (ii) a discount of approximately 15.08% to the average closing price of HK\$0.1366 per Share for the last 5 trading days up to and including the Last Trading Day; and
- (iii) a discount of approximately 12.39% to the average closing price of HK\$0.1324 per Share for the last 10 trading days up to and including the Last Trading Day.

The Placing Price was negotiated on an arm's length basis between the Company and the Placing Agent with reference to the recent market prices of the Shares and taking into account the substantial number of Placing Shares to be issued under the Placing.

Conditions of the Placing

Completion of the Placing is conditional upon:

- (1) the Stock Exchange having granted or agreeing to grant the listing of, and permission to deal in, the Placing Shares; and;
- (2) the Placing Agreement not having been terminated in accordance with its terms.

If any of the above conditions precedent are not fulfilled by 5:00 p.m. on the Placing Long Stop Date, the Placing Agreement shall automatically terminate and all rights, obligations and liabilities of the parties to the Placing Agreement in relation to the Placing shall cease and determine and none of the parties shall have any claim against the other in respect of the Placing save in respect of any antecedent breach under the Placing Agreement.

Termination of the Placing

The Placing Agent shall have the right to terminate the Placing Agreement by notice in writing given to the Company at any time prior to 12:00 noon (Hong Kong time) on the completion date of the Placing if any of the following develops, occurs or comes into force:

- (a) there shall have come to the notice of the Placing Agent any material breach of, or any event rendering untrue or incorrect in any material respect, any of the representations and warranties of the Company contained therein or any failure to perform any of the Company's undertakings in the Placing Agreement;
- (b) any new law, rule or regulation or any change in existing laws (including common law), rules or regulations (or the juridical interpretation thereof) or other occurrence of any nature whatsoever which, in the reasonable opinion of the Placing Agent, are or may be materially adverse to the business or financial position of the Company or any other member of the Group taken as a whole or otherwise makes it inexpedient or inadvisable to proceed with the Placing;
- (c) any event or circumstance (whether or not forming part of a series of events or circumstances occurring or continuing before, on and/or after the date of the Placing Agreement) or material change or deterioration in local, national, international, political, military, financial, economic, market or trading conditions or any other conditions (whether or not ejusdem generis with any of the foregoing) in any part of the world in which the Company or any other member of the Group carries on business which, in the reasonable opinion of the Placing Agent, is or may be materially adverse to the business or financial position of the Company or any other member of the Group taken as a whole or otherwise makes it inexpedient or inadvisable to proceed with the Placing;

- (d) any suspension of dealings in the Shares for any period of five consecutive trading days or more (other than as a result of announcing the Placing); or
- (e) any moratorium, suspension or material restriction on trading in shares or securities generally on the Stock Exchange,

and that the right to terminate the Placing Agreement under paragraphs (a) to (e) above shall be a separate and independent right and that the exercise of any such right by the Placing Agent shall not affect or prejudice or constitute a waiver of any other right, remedy or claim which the Placing Agent may have as at the date of such notice nor shall termination of the Placing Agreement affect or prejudice any provision thereof expressed to survive or operate in the event of termination of the Placing Agreement.

Without prejudice to any other provisions of the Placing Agreement, the Placing Agent shall have the right exercisable at any time by notice in writing to the Company to terminate the Placing Agreement if any of the Placing Shares are not delivered by or on behalf of the Company in accordance with the terms of the Placing Agreement.

Completion of the Placing

Completion of the Placing will take place within four business days after the fulfillment of the conditions set out in the Placing Agreement or such later date as may be agreed in writing between the Company and the Placing Agent.

As the Placing may or may not proceed, Shareholders and potential investors are advised to exercise caution when dealing in the Shares.

Reasons for the Placing and use of proceeds

Assuming all 276,956,000 Placing Shares are placed under the Placing, the gross proceeds and net proceeds from the Placing will be approximately HK\$32.13 million and approximately HK\$31.79 million respectively, which will be used for general working capital of the Group and/or to fund potential acquisitions or investment opportunities, including but not limited to the Proposed Acquisition (if proceeded). On that basis, the net price per Placing Share is estimated to be approximately HK\$0.115. The Directors consider that the Placing represents an opportunity to raise the required capital for the Company for general working capital purposes and/or to fund potential acquisitions or investment opportunities, while broadening the Shareholder base of the Company. Accordingly, the Directors consider the Placing Agreement is in the interests of the Company and its shareholders as a whole.

APPLICATION FOR LISTING

Application will be made to the Stock Exchange for the listing of, and permission to deal in, the Placing Shares.

FUND RAISING ACTIVITIES IN THE PAST TWELVE MONTHS

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

CHANGES IN THE COMPANY'S SHAREHOLDING STRUCTURE

The following table sets out the shareholding structure of the Company as at the date of this announcement and the changes thereto as a result of the allotment and issue of the Placing Shares:

	As at the date of this announcement		Immediately after allotment and issue of the Placing Shares	
	<i>Number of Shares</i>	<i>%</i>	<i>Number of Shares</i>	<i>%</i>
True Allied Assets Limited (<i>Note</i>)	351,518,000	25.13	351,518,000	20.98
Mr. Li Ge (<i>Note</i>)	37,012,000	2.65	37,012,000	2.21
<i>Public Shareholders:</i>				
Placees	–	–	276,956,000	16.53
Other Public Shareholders	<u>1,010,069,970</u>	<u>72.22</u>	<u>1,010,069,970</u>	<u>60.28</u>
Total	<u>1,398,599,970</u>	<u>100.00</u>	<u>1,675,555,970</u>	<u>100.00</u>

Note: True Allied Assets Limited is beneficially wholly-owned by Mr. Li Ge.

SUSPENSION AND RESUMPTION OF TRADING IN SHARES

Trading in the Shares on the Stock Exchange was suspended at the request of the Company with effect from 9:30 a.m. on 20 September 2010 pending the release of this announcement. An application has been made to the Stock Exchange for resumption of trading in the Shares with effect from 2:30 p.m. on 21 September 2010.

DEFINITIONS

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

“Board”	the board of Directors
“Business”	the business of the Target Group, being principally the retail business of fashionable products and accessories in Hong Kong the PRC, as detailed in the section headed “Information on the Target Group” in this announcement
“Company”	FAVA International Holdings Limited, a company incorporated in Bermuda with limited liability, and the shares of which are listed on GEM
“connected person”	has the meaning ascribed to it under the GEM Listing Rules and the word “connected” shall be construed accordingly
“Consideration”	consideration payable by the Purchaser to the Vendor for the Proposed Acquisition
“Director(s)”	the director(s) of the Company
“Earnest Money”	HK\$40,000,000 payable by the Purchaser to the Vendor within 30 days from the date of the Memorandum of Understanding (or such other dates or times as agreed between the Vendor and the Purchaser) as refundable earnest money or deposit
“Formal Agreement”	the formal legally-binding sale and purchase agreement to be entered into between the Purchaser (or its nominated entity) and the Vendor in the event that the parties proceeds with the Proposed Acquisition
“GEM”	the Growth Enterprise Market of the Stock Exchange
“GEM Listing Rules”	the Rules Governing the Listing of Securities on GEM
“General Mandate”	the general mandate granted to the Board pursuant to the resolution passed by the Shareholders at the annual general meeting held on 6 May 2010 to allot, issue and deal with up to 20% of the then issued share capital of the Company as at the date of passing such resolution (such issued share capital being HK\$2,769,599.94 divided into 1,384,799,970 Shares)

“Group”	the Company and its subsidiaries
“HK\$”	Hong Kong dollar(s), the lawful currency of Hong Kong
“Hong Kong”	the Hong Kong Special Administrative Region of PRC
“Independent Third Party(ies)”	third party(ies) independent of the Company and its connected person
“Last Trading Day”	17 September 2010, being the last trading day prior to the suspension of trading in the Shares pending the release of this announcement
“Memorandum of Understanding”	the non-legally binding (save for certain provisions relating to the settlement method of the Consideration, confidentiality, exclusivity and the governing law) memorandum of understanding dated 20 September 2010 entered into between the Purchaser and the Vendor in relation to the Proposed Acquisition
“Placee(s)”	any professional institutional or other investor independent of and not connected with the Company, the directors, chief executive and substantial shareholders (as those terms are defined in the GEM Listing Rules) of the Company, its subsidiaries and their respective associates (as defined in the GEM Listing Rules) procured by or on behalf of the Placing Agent to subscribe for any of the Placing Shares pursuant to the Placing Agent’s obligations under the Placing Agreement
“Placing”	the conditional placing of the Placing Shares by the Placing Agent pursuant to the Placing Agreement
“Placing Agent”	Quam Securities Company Limited, a company incorporated in Hong Kong and a licensed corporation to carry out business in type 1 (dealing in securities), type 2 (dealing in futures contracts), type 4 (advising on securities) and type 9 (asset management) regulated activities under the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
“Placing Agreement”	the placing agreement between the Company and the Placing Agent dated 21 September 2010 in relation to the Placing
“Placing Long Stop Date”	31 October 2010 or such later time or date as the Company and the Placing Agent may agree in writing

“Placing Price”	HK\$0.116 per Placing Share
“Placing Shares”	a maximum of 276,956,000 new Shares
“PRC”	the People’s Republic of China excluding, for the purpose of this announcement, Hong Kong, the Macau Special Administrative Region of the People’s Republic of China and Taiwan
“Proposed Acquisition”	the proposed acquisition of 80% interest of the Target Company by the Purchaser
“Purchaser”	EMAX Venture Limited, a company incorporated in the British Virgin Islands, and a wholly-owned subsidiary of the Company
“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 Company”	the target company under the Proposed Acquisition, a limited liability company incorporated in Hong Kong
“Target Group”	the Target Company and its subsidiaries
“Vendor”	an individual who is the controlling shareholder of the Target Company, being the vendor under the Proposed Acquisition
%	per cent

By the order of the Board
FAVA International Holdings Limited
Li Ge
Chairman

Hong Kong, 21 September 2010

As at the date of this announcement, the Board comprises Mr. Li Ge and Mr. Zhao Guo Wei as executive Directors, Mr. Ng Kwai Wah, Sunny as non-executive Director, and Mr. Lee Yuen Kwong, Mr. Yang Dongli and Mr. Yang Jie 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*