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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 DISPOSED BUSINESS

THE DISPOSAL

On 19 May 2010, Hengyu entered into the Disposal Agreement with Mr. Liu, pursuant to which Hengyu agreed to dispose of and Mr. Liu agreed to acquire, the Disposed Business. The consideration for the Disposal is RMB3,400,366.97 (approximately HK\$3,867,781.41). The gross proceeds of RMB3,400,366.97 (before deducting all expenses) from the Disposal will be applied for offsetting the amounts due to Mr. Liu and the remaining balance 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 Disposal are greater than 5% but less than 25%, the Disposal constitutes a discloseable transaction of the Company under Chapter 19 of the GEM Listing Rules.

THE DISPOSAL AGREEMENT

Date

19 May 2010

Parties to the Disposal Agreement

- (i) Hengyu, as the vendor
- (ii) Mr. Liu, 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. Liu during the 12 months immediately prior to the date of the Disposal Agreement which should be aggregated with the Disposal under Rule 19.22 of the GEM Listing Rules. Mr. Liu is an Independent Third Party.

Mr. Liu was the former owner and operator of the manufacturing and wholesaling business. On 19 October 2007, Hengyu, Jixiangniao Furniture Factory and Mr. Liu entered into an Acquisition Agreement, pursuant to which Hengyu conditionally agreed to acquire, and Jixiangniao Furniture Factory conditionally agreed to dispose of, the manufacturing and wholesaling business. The acquisition was passed at the special general meeting held on 30 November 2007 by way of poll. Please refer to the announcement dated 22 October 2007, the circular dated 12 November 2007 and the announcement dated 30 November 2007 respectively of the Company for details.

Information about the Disposed Business to be disposed of

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

The Disposed Business is principally engaged in the business of manufacturing and wholesaling of sofa, tea tables and living room furniture in the PRC.

The Disposed Business to be disposed of by Hengyu under the 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 Disposed Business

Based on the financial information regarding the Disposed 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 Disposed Business are set out as below:

	For the year ended 31 December 2008	For the year ended 31 December 2009
	<i>RMB'000</i>	<i>RMB'000</i>
Turnover	30,464	34,215
Net profit/(net loss) before tax and extraordinary items	3,913	(2,411)
Net profit/(net loss) after tax and extraordinary items	3,913	(2,411)

The unaudited net asset value of the Disposed Business as at the Reference Date is RMB3,400,366.97.

Completion of the Disposal Agreement

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

Consideration

The consideration of RMB3,400,366.97 (approximately HK\$3,867,781.41) for the disposal of the Disposed Business is payable by Mr. Liu in the following manners:

- (i) RMB3,074,419.32 (approximately HK\$3,497,029) will be used for offsetting the amounts due to Mr. Liu; and
- (ii) the remaining balance of RMB325,947.65 (approximately HK\$370,752.41) will be paid in RMB cash within one month from the signing of the Disposal Agreement.

The consideration for the Disposal of RMB3,400,366.97 was arrived at after arm's length negotiation between Hengyu and Mr. Liu, with reference to the net asset value of the Disposed Business as at the Reference Date of RMB3,400,366.97.

Financial effects of the Disposal

Upon the completion of the Disposal, the Group will no longer own any interests in the Disposed 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 Disposal and the consideration for the disposal of the Disposed Business equals to its net asset value as at the Reference Date.

REASONS FOR AND BENEFITS OF THE DISPOSAL AND USE OF PROCEEDS

As also 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 plants 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 principally engage in trading. Accordingly, the Disposal provides 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 loss recorded by the manufacturing and wholesaling business for the past year; and (ii) the uncertainties over when the manufacturing and wholesaling business will record stable profitability as the management of the Company is of the view that the manufacturing and wholesaling business will face fierce low-end competition due to homogenization since the manufacturing and wholesaling business mainly targets at low-end customer, the Directors (including independent non-executive Directors) consider that the terms and conditions of the Disposal (including the consideration for the Disposal) are fair and reasonable and in the interests of the Company and its shareholders as a whole.

The gross proceeds of RMB3,400,366.97 (before deducting all expenses) from the Disposal will be applied for offsetting the amounts due to Mr. Liu and the remaining balance will be used as the Group's general working capital.

TERMINATION OF CONTRACTING AGREEMENT AND SUPPLEMENTAL CONTRACTING AGREEMENT

Hengyu and Mr. Liu entered into the Contracting Agreement and Supplemental Contracting Agreement on 15 October 2009, which provide for a contracting operation period of two years commencing from 1 January 2010 and set out the conditions of contracting operation in order to refine and regulate the procedures of contracting operation.

Hengyu and Mr. Liu entered into the Contracting Termination Agreement on 19 May 2010 with effect from the date of signing of the agreement. Any outstanding obligations (if any) of Hengyu and Mr. Liu under the Contracting Agreement and Supplemental Contracting Agreement as at the Reference Date shall be immediately released and ceased to have any effect, without prejudice to any antecedent rights and obligations of Hengyu and Mr. Liu under the relevant documents.

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 Disposal are greater than 5% but less than 25%, the Disposal constitutes a discloseable transaction of the Company under Chapter 19 of the GEM Listing Rules.

GENERAL

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

From the date of signing of the Contracting Termination Agreement, the Contracting Agreement (as supplemented and amended by the Supplemental Contracting Agreement) shall be immediately terminated.

DEFINITIONS

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

“amounts due to Mr. Liu”	RMB3,074,419.32, i.e. the amounts due to the manufacturing and wholesaling business from Hengyu as at 31 December 2009 that shall be transferable to Mr. Liu under the Contracting Agreement; and its balance as at the Reference Date remains RMB3,074,419.32
“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
“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
“Contracting Agreement”	the agreement for contracting operation of the manufacturing and wholesaling business entered into between Hengyu and Mr. Liu on 15 October 2009 for an operating term of 2 years commencing from 1 January 2010 pursuant to which Mr. Liu shall pay a contracting fee of RMB800,000 and RMB1,000,000 respectively to Hengyu in 2010 and 2011
“Contracting Termination Agreement”	the agreement entered into between Hengyu and Mr. Liu on 19 May 2010 to terminate the Contracting Agreement and the Supplemental Contracting Agreement of the manufacturing and wholesaling business commencing from the Reference Date
“Director(s)”	the director(s) of the Company
“Disposal”	the disposal of the Disposed Business under the Disposal Agreement
“Disposal Agreement”	the disposal agreement dated 19 May 2010 entered into between Hengyu and Mr. Liu in respect of the Disposal
“Disposed Business”	the manufacturing and wholesaling business owned by Hengyu as at the Reference Date
“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
“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
“Jixiangniao Furniture Factory”	Jixiangniao Furniture Factory* (吉祥鳥家具廠), a factory engages in the business of manufacturing and wholesaling of sofa, tea tables and living room furniture and Hengyu owned its entire interests
“manufacturing and wholesaling business”	Jixiangniao Furniture Factory and its business of manufacturing and wholesaling of sofa, tea tables and living room furniture
“Mr. Liu”	Mr. Liu Qian Jin (柳前進先生), an independent third party
“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”	30 April 2010
“RMB”	Renminbi, the lawful currency of the PRC
“Supplemental Contracting Agreement”	the supplemental agreement for contracting operation of the manufacturing and wholesaling business and the conditions for contracting operation entered into between Hengyu and Mr. Liu on 15 October 2009 to amend part of the terms of the Contracting Agreement and set out the conditions of contracting operation in order to refine and regulate the procedures of contracting operation, and to agree that the contracting operation shall be undertaken in accordance with the conditions

“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\$1.13746 in this announcement for illustration purpose only.

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

Hong Kong, 19 May 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: (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 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*