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China Flavors and Fragrances Company Limited **中國香精香料有限公司**

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 3318)

ISSUE OF SECURED CONVERTIBLE BOND AND GENERAL DISCLOSURE PURSUANT TO RULE 13.18 OF THE LISTING RULES

THE SUBSCRIPTION AGREEMENT

On 30 June 2016 (after trading hours), the Company entered into the Subscription Agreement with the Subscriber pursuant to which the Subscriber conditionally agreed to subscribe, and the Company conditionally agreed to issue the Convertible Bond in an aggregate principal amount of US\$40,000,000.

Based on the initial Conversion Price of HK\$2.915 per Share and assuming full conversion of the Convertible Bond, a maximum number of 107,032,590 Shares will be allotted and issued by the Company which represents approximately 15.86% of the existing issued share capital of the Company and 13.69% of the issued share capital of the Company as enlarged by the issue of Conversion Shares. The Conversion Shares will be allotted and issued under the General Mandate.

THE LOAN AGREEMENT

On 30 June 2016 (after trading hours), the Company as borrower entered into the Loan Agreement with the Subscriber as lender pursuant to which the Subscriber agreed to lend US\$10,000,000 to the Company for a term of two years.

As the Subscription Agreement and the Loan Agreement impose, among other things, a specific performance obligation on the controlling shareholder of the Company and a breach of such obligation will cause a default therein, the Directors make this announcement in compliance with the general disclosure obligations under Rule 13.18 of the Listing Rules.

On 30 June 2016 (after trading hours), the Company entered into the Subscription Agreement with the Subscriber in relation to the subscription of the Convertible Bond. On the same day, the Company also entered into Loan Agreement with the Subscriber in relation to a loan of US\$10,000,000.

Details of the terms of the Subscription Agreement and the Convertible Bond are summarized below.

THE SUBSCRIPTION AGREEMENT

Date

30 June 2016

Parties

- (i) the Company; and
- (ii) the Subscriber.

The Subscriber is a company incorporated in Hong Kong with limited liability. To the best of the knowledge, information and belief of the Directors, and having made all reasonable enquiries, the Subscriber and its ultimate beneficial owner(s) are Independent Third Parties.

Subscription of the Convertible Bond

Subject to the terms and conditions of the Subscription Agreement, the Company agrees to issue and the Subscriber agrees to, subject to satisfaction of the Conditions at Completion, subscribe in cash for the Convertible Bond in an aggregate principal amount of US\$40,000,000.

Conditions at Completion

The obligations of the Subscriber to subscribe for the Convertible Bond are subject to, *inter alia*, the following Conditions at Completion:

- (a) there shall not be any change or development or event (financial or otherwise) that is or may potentially adversely impact on the prospects, income, business, results of operations or general affairs of the Company or any material adverse events from the date of Subscription Agreement;
- (b) the approval by the Board for the issuance of Convertible Bond, the allotment and issuance of Conversion Shares to the Subscriber pursuant to the General Mandate;
- (c) all the necessary approvals or consents from the Directors and/or third parties for execution and performance of Subscription Agreement, the transaction documents and the transactions contemplated thereunder have been obtained, and all the necessary filings or registrations, and all the applicable statutory or other legal obligations shall have been complied with;
- (d) the grant of approval for the listing of, and permission to deal in, the Conversion Shares by the Stock Exchange; and

(e) the representations, statements and warranties shall be true, complete and correct in all material respect (for the fact and event existed during this period, unless otherwise specified) as of the date of Completion.

The Parties shall procure the fulfillment of all the Conditions on or before Completion.

Completion

Completion shall take place on the third Business Day after all the Conditions have been satisfied or waived by the Subscriber in writing (or at such other date as the Company and the Subscriber may mutually agree upon in writing).

Security

The Group has entered into the Security Documents in favour of the Subscriber for the issue of the Convertible Bond on the Issue Date to charge the entire issue share capital in certain subsidiaries of the Company, namely Kimree Inc., Kimree (HK) and Kimsun to secure all present and future obligations and liabilities (whether actual or contingent and whether owed jointly or severally or in any other capacity whatsoever) of the Company under the Subscription Agreement.

PRINCIPAL TERMS OF THE CONVERTIBLE BOND

Principal Amount

US\$40,000,000.

Issue Price

100% of the aggregate principal amount of the Convertible Bond.

Form

The Convertible Bond will be issued in registered form.

Status

The Convertible Bond constitutes direct, unconditional and unsubordinated obligations of the Company and shall at all times rank *pari passu* and without any preference or priority among themselves. The Shares issued upon conversion of the Conversion Bond will rank *pari passu* with the Shares in issue on the relevant registration date.

Maturity Date

The Convertible Bond will mature on the second anniversary day of the Issue Date, or if agreed by the parties, to extend the Maturity Date to the third anniversary day of the Issue Date.

Interest

The Convertible Bond bears interest from and including the Issue Date and payable every six months in arrears on the Interest Payment Date. The amount of interests shall be calculated by applying the rate of interest of seven percent per annum to the outstanding principal amount of such Convertible Bond. The final payment of interest shall be calculated in proportion to the number of days accrued from the last most recent Interest Payment Date to the Maturity Date.

Conversion Price

The conversion price is initially HK\$2.915 per Share (with exchange rate fixed for US\$1 to HK\$7.8) subject to adjustment in accordance with the Conditions.

The Conversion Price represents:

- (a) a premium of approximately 10.42% over the closing price of HK\$2.64 per Share as quoted on the Stock Exchange on the date of signing the Subscription Agreement;
- (b) a premium of approximately 8.85% over the average of the closing prices of HK\$2.678 per Share as quoted on the Stock Exchange for the last five consecutive trading days of the Shares up to and including the date of signing the Subscription Agreement; and
- (c) a premium of approximately 8.36% over the average of the closing prices of HK\$2.69 per Share as quoted on the Stock Exchange for the last ten consecutive trading days of the Share up to and including the date of signing the Subscription Agreement.

The Directors (including the independent non-executive Directors) are of the opinion that the Conversion Price for the issuance of the Conversion Shares is fair and reasonable and in the interests of the Company and the Shareholders as a whole.

Adjustments to the Conversion Price

The Conversion Price shall be adjusted as provided in each of the following cases:

- (a) an issue of any Shares, convertible bonds, options or other rights to subscribe or purchase Shares at a price per Share less than the applicable Conversion Price in effect preceding such issue;
- (b) an alteration of the nominal value of the Shares as a result of consolidation or subdivision;
- (c) an issue by the Company of Shares credited as fully paid to the Shareholders by way of capitalization of profits or reserves (including Shares paid up out of distributable profits or reserves and/or share premium account issued);
- (d) a capital distribution by way of dividend being made by the Company to the Shareholders; and

- (e) any other events where the Company or the Bondholder determines that an adjustment should be made to the conversion price as a result of one or more events or circumstances not referred to above.

Conversion Rights

Subject to the terms contained in the Convertible Bond, the Bondholder shall have the right to convert all or part of the Convertible Bond held by it (if in part, the principal amount of the Convertible Bond to be converted shall be in the minimum amount of US\$1,000,000 and integral multiples of US\$1,000,000) into Shares credited as fully paid at any time during the Conversion Period disregarding fractions and rounded down to the nearest whole number of Shares, by dividing the aggregate principal amount of the Convertible Bond to be converted, by the applicable Conversion Price in effect on the relevant Conversion Date.

Conversion Shares

Based on the initial Conversion Price and on full conversion of the Convertible Bond, a maximum number of 107,032,590 Conversion Shares will be allotted and issued by the Company, represent its approximately 15.86% of the existing issued share capital of the Company and 13.69% of the issued share capital of the Company as enlarged by the issue of Conversion Shares. No fraction of a Conversion Share shall be issued on conversion and in lieu thereof.

In any event, the maximum limit of Conversion Shares which can be allotted and issued to the Bondholder is 133,880,579 Shares.

Conversion Period

The Bondholder shall be entitled to exercise the right of conversion during the Conversion Period.

Transferability

The Convertible Bond may be transferred or charged to any third parties without the consent of the Company by delivery of the Bond Certificate issued in respect of that Convertible Bond, with the form of transfer duly completed and signed.

Redemption on Maturity Date

The principal amount of the Convertible Bond which remains outstanding on the Maturity Date shall be automatically redeemed by the Company on the Maturity Date.

If the Maturity Date is the second anniversary day of the Issue Date, the redemption amount shall be 102% of the outstanding principal amount of such Convertible Bond. If the Maturity Date is agreed by the parties to extend to the third anniversary day of the Issue Date, the redemption amount shall be 103% of the outstanding principal amount of such Convertible Bond.

Early Redemption by the Company

The Company may redeem the outstanding principal amount of the Convertible Bond at any time after the date falling 6 months after the Issue Date by giving a redemption notice of not less than 10 Business Day to the Bondholder to early redeem the outstanding principal amount of the Convertible Bond in accordance with the following formula:

$$\text{Redemption Amount} = \frac{\text{outstanding principal amount of Convertible Bond} \times \frac{\text{Number of days accrued from the Issue Date to the date of redemption (including the date of redemption)}}{365} \times 12\% - \text{total amount of interest already paid by the Company}}$$

If the Company redeems the outstanding principal amount of the Convertible Bond within 6 months after the Issue Date, the Company may give redemption notice of not less than 10 Business Day to the Bondholder to early redeem the Convertible Bond in accordance with the following formula:

$$\text{Redemption Amount} = \frac{\text{outstanding principal amount of Convertible Bond}}{\times 6\%} - \text{total amount of interest already paid by the Company}}$$

Event of Default

The Bondholder may give written notice to the Company that the Convertible Bond shall be redeemed by the Company in accordance with the provisions for default redemption if the following events occur:

- (a) there is a default in the payment of any amount payable in respect of the Convertible Bond by the Company;
- (b) failure by the Company to issue and allot the Conversion Shares pursuant to the terms and conditions of the Subscription Agreement or Bond Instrument;
- (c) Mr. Wang is no longer the single largest Shareholder of the Company;
- (d) the aggregate interest in the Shares held by Mr. Wang together with his family members falls below 30%;
- (e) the net asset value of the most recent consolidated interim financial accounts or audited consolidated annual account is less RMB1,400,000,000;
- (f) the Company does not perform or comply with one or more of its other warranties, covenants or obligations in the Subscription Agreement or the Bond Instrument which default is not remedied within 10 days after written notice of such default;

- (g) an order of any court of competent jurisdiction is made or an effective resolution is passed for the liquidation, winding-up or dissolution of the Company except for the purpose of and followed by a reconstruction, merger or reorganization;
- (h) a distress, attachment, execution, seizure before judgment or other legal process is levied, enforced or sued out on or against any material part of the property, assets or revenue of the Company and is not discharged within 30 days;
- (i) an encumbrancer takes possession or a receiver or an administrator is appointed of the whole or a material part of the property or business of the Company;
- (j) the Shares are suspended from trading for more than five consecutive trading days or when the Shares cease to be listed or admitted to trading on the Stock Exchange;
- (k) failure by the Company to deliver any Conversion Shares as and when such Conversion Shares are required to be delivered following conversion of a Convertible Bond;
- (l) cross-default by the Company in respect of any other present or future indebtedness of the Company for or in respect of moneys borrowed or raised becomes due and payable prior to its stated maturity by reason of an event of default (however called) or any such indebtedness is not paid when due or, as the case may be, within any applicable grace period originally provided for or the Company or the Company fails to pay when due any amount payable by it under any present or future guarantee for any moneys borrowed or raised;
- (m) proceedings shall have been initiated against the Company under any applicable bankruptcy, reorganisation or insolvency law and such proceedings shall not have been discharged or stayed within a period of 45 days;
- (n) litigation, arbitration, or administrative or other proceedings against the Company are commenced or to be commenced or potentially commenced and such proceedings shall not have been discharged or stayed within a period of 45 days;
- (o) encumbrance on security contemplated under the transactions thereunder which renders the Bondholder unable to exercise his rights under the security documents; and
- (p) the Company ceases or threatens to cease to carry on all or substantially all of its business or operations.

Listing

The Convertible Bond will not be listed on the Stock Exchange or any other stock exchange. An application will be made to the Listing Committee of the Stock Exchange for the listing of, and permission to deal in the Conversion Shares.

EFFECT OF SUBSCRIPTION OF SHAREHOLDINGS

Shareholders	As at the date of this announcement		Immediately after full conversion of Convertible Bond at the Conversion Price (Note 4)	
	Number of Shares	Approximate %	Number of Share	Approximate %
Creative China Limited (Note 1)	334,254,113	49.52	334,254,113	42.74
Full Ashley Enterprises Limited (Note 2)	18,538,098	2.75	18,538,098	2.37
Mr. Wang (Note 3)	68,604,721	10.16	68,604,721	8.77
Subscriber	0	0.00	107,032,590	13.69
Public Shareholders	<u>253,645,708</u>	<u>37.57</u>	<u>253,645,708</u>	<u>32.43</u>
Total	<u><u>675,042,640</u></u>	<u><u>100.00</u></u>	<u><u>782,075,230</u></u>	<u><u>100.00</u></u>

Notes:

- (1) As at the date of this announcement, Creative China Limited is owned as to 41.19% by Mr. Wang, as to 28.11% by Mr. Wong Ming Bun (a former director of the Company), as to 19.87% by Mr. Wang Ming You (a former director of the Company), as to 6.89% by Mr. Qian Wu and as to 3.94% by Mr. Li Qing Long. Mr. Wang, Mr. Qian Wu and Mr. Li Qing Long were Directors of the Company and also directors of Creative China Limited.
- (2) As at the date of this announcement, Full Ashley Enterprises Limited is a private company which is wholly-owned by Mr. Wang.
- (3) Mr. Wang is the chairman, executive director and controlling shareholder of the Company.
- (4) Assuming that the shareholding structure of the Company has not changed after the date of this announcement and upon completion and immediately after full conversion of the Convertible Bond.

THE LOAN AGREEMENT

On 30 June 2016 (after trading hours), the Company as borrower entered into the Loan Agreement with the Subscriber as lender pursuant to which the Subscriber agreed to lend US\$10,000,000 to the Company for a term of two years.

Pursuant to the terms of the Loan Agreement, the Subscriber may declare all or part of the outstanding amounts together with interest accrued thereon and all others amounts to be immediately due and payable if Mr. Wang ceases to be the single largest Shareholder of the Company or if the aggregate interest in the Shares held by Mr. Wang together with his family members falls below 30%.

REASONS FOR THE CONVERTIBLE BOND ISSUE AND USE OF PROCEEDS

The Directors consider raising funds by issuing the Convertible Bond is justifiable considering the recent market conditions which represent an opportunity for the Group to enhance general working capital and strengthen its financial position and for repayment of loan. The Directors also consider that the issue of the Convertible Bond is an appropriate means of raising additional capital for the Group since it will not have an immediate dilution effect on the shareholding of the existing Shareholders and if the right of conversion of the Convertible Bond is exercised, the shareholder base of the Company will be broadened. It also signifies the confidence and recognition of the Subscriber which is a reputable and renowned institutional investor in the market, in the potential of the Company and demonstrates their willingness to support the Company.

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 Shareholder as a whole.

EQUITY FUND RAISING ACTIVITIES IN THE PAST 12 MONTHS

The Company has not conducted any equity fund raising activities for the 12 months immediately before the date of this announcement.

INFORMATION ON THE SUBSCRIBER

The Subscriber is a company incorporated in Hong Kong with limited liability. The Subscriber is a wholly-owned subsidiary of China Great Wall Asset Management Corporation. The Subscriber is principally engaged in investment holding.

As at the date of this announcement, to the best knowledge, information and belief of the Directors and having made all reasonable enquiries, the Subscriber and its ultimate beneficial owner(s) are Independent Third Parties.

INFORMATION ABOUT THE GROUP

The Group is principally engaged in the research and development, manufacture and sale of flavors and fragrances, which are provided to the Group's customers for making addition or improvement of flavors or fragrances in the customers' manufactured tobacco, food and daily consumer good.

LISTING RULES IMPLICATIONS

By a resolution of the Shareholders passed at the annual general meeting of the Company held on 13 May 2016, the Company granted the General Mandate to the Directors to allot and issue up to 20% of the total number of Shares of the Company in issue on 13 May 2016, i.e. 133,880,579 Shares.

As at the date of this announcement, the Company has not utilised the General Mandate and the Directors are entitled to issue up to 133,880,579 Shares pursuant to the General Mandate.

Based on the initial Conversion Price of HK\$2.915 per Share and assuming full conversion of the Convertible Bond, a maximum number of 107,032,590 Shares will be allotted and issued by the Company which represents approximately 15.86% of the existing issued share capital of the Company and 13.69% of the issued share capital of the Company as enlarged by the issue of Conversion Shares.

The issue of the Convertible Bond and the Conversion Shares (upon conversion of the Convertible Bond) is not subject to Shareholders' approval.

As Completion is subject to the fulfillment of a number of Conditions, the transaction may or may not be materialise. Shareholders and potential investors should exercise caution when dealing in the Shares.

As the Subscription Agreement and the Loan Agreement impose, among other things, a specific performance obligation on the controlling shareholder of the Company and a breach of such obligation will cause a default therein, the Directors make this announcement in compliance with the general disclosure obligations under Rule 13.18 of the Listing Rules.

DEFINITIONS

“Board”	board of Directors
“Bond Certificate”	the definitive registered certificate given under the seal of the Company evidencing the title of the Bondholder to the Convertible Bond it holds
“Bond Instrument”	a bond instrument constituting the Convertible Bond
“Bond Register”	the register of holders of the Convertible Bond which shall be maintained by the Company in accordance with the Conditions
“Bondholder”	any person for the time being entered in the Bond Register as the holder of the Convertible Bond
“Business Day”	a day other than a Saturday and Sunday on which commercial banks are opened for business in Hong Kong
“Company”	China Flavors and Fragrances Company Limited (中國香精香料有限公司), a company incorporated in the Cayman Islands with limited liability, the issued shares of which are listed on the Main Board of the Stock Exchange
“Company Share Charge”	the share mortgage executed by the Company as mortgagor and the Subscriber as secured party in respect of the charge of the entire issued share capital of Kimree, Inc., a wholly-owned subsidiary of the Company

”Completion”	completion of the subscription of the Convertible Bond
“Conditions”	the terms and conditions to the Convertible Bond to be attached to the Bond Certificate substantially in the form set out in the Subscription Agreement
“Conversion Date”	the conversion date in respect of the Convertible Bond
“Conversion Period”	any time after the Issue Date up to five Business Days before the Maturity Date
“Conversion Price”	the price per Conversion Share at which the Conversion Shares will be issued upon exercise of the conversion rights, such price initially being HK\$2.915 per Share, but subject to adjustment in accordance with the terms of the Bond Instrument
“Conversion Shares”	new Shares to be issued upon conversion of the Convertible Bond
“Convertible Bond”	the convertible bond in the principal amount of US\$40,000,000 to be issued pursuant to the Subscription Agreement
“Director(s)”	director(s) of the Company
“General Mandate”	the general mandate granted to the Directors to allot and issue up to 20% of the total number of Shares of the Company in issue on 13 May 2016, by a resolution of the Shareholders passed at the annual general meeting of the Company held on 13 May 2016
“Group”	the Company and its subsidiaries
“Independent Third Party(ies)”	third party(ies) independent of the Company and the connected persons (as defined in the Listing Rules) of the Company
“Interest Payment Date”	every six months in arrears falling on the last day of every 6 months from the Issue Date
“Issue Date”	the date of the Bond Instrument
“Kimree (HK)”	Kimree Holdings (HK) Co., Limited, a company incorporated under the laws of Hong Kong and an indirect wholly-owned subsidiary of the Company
“Kimree (HK) Share Charge”	the share mortgage executed by Kimree Inc. as mortgagor and the Subscriber as secured party in respect of the charge of the entire issued share capital of Kimree (HK)

“Kimsun”	Kimsun Technology (Huizhou) Co., Limited, a company established under the laws of the PRC, an indirect wholly-owned subsidiary of the Company
“Kimsun Share Charge”	the share mortgage executed by Kimree (HK) as mortgagor and the Subscriber as secured party in respect of the charge of the entire issued capital of Kimsun
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Loan Agreement”	the loan agreement entered into by the Subscriber and the Company dated 30 June 2016
“Maturity Date”	the second anniversary day of the Issue Date (or if agreed by the parties, to extend the maturity date to the third anniversary day of the Issue Date)
“Mr. Wang”	Mr. Wang Ming Fan, the chairman, executive director and controlling shareholder of the Company
“PRC”	The People’s Republic of China
“Security Documents”	collectively (i) Company Share Charge, (ii) Kimree Inc. Share Charge, and (iii) Kimree (HK) Share Charge
“Share(s)”	ordinary share(s) of HK\$0.1 each in the Company
“Shareholder”	holder(s) of the Share(s)
“Subscription Agreement”	the subscription agreement dated 30 June 2016 entered into between the Company and the Subscriber relating to the subscription of the Convertible Bond by the Subscriber and the issue of the Convertible Bond by the Company
“Stock Exchange”	The Stock Exchange of Hong Kong Limited

“Subscriber”	Great Wall Pan Asia International Investment Co., Limited, being a limited liability company incorporated in Hong Kong which is principally engaged in investment holding
“US\$”	the lawful currency of the United States of the America
“%”	per cent

By order of the Board
China Flavors and Fragrances Company Limited
Wang Ming Fan
Chairman

Hong Kong, 30 June 2016

As at the date of this announcement, the Board comprises seven Directors, namely Mr. Wang Ming Fan, Mr. Li Qing Long and Mr. Qian Wu as executive Directors, Ms. Sy Wai Shuen as non-executive Director and Mr. Leung Wai Man, Roger, Mr. Ng Kwun Wan and Mr. Zhou Xiao Xiong as independent non-executive Directors.