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## **China Flooring Holding Company Limited**

**中國地板控股有限公司**

*(Incorporated in the Cayman Islands with limited liability)*

**(Stock Code: 2083)**

### **UP TO US\$30,000,000 TERM LOAN AND UP TO US\$10,000,000 CONVERTIBLE LOAN FROM INTERNATIONAL FINANCE CORPORATION**

The Board announces that on 15 January 2013, the Company entered into the Loan Agreement with IFC, pursuant to which IFC agreed to lend and the Company agreed to borrow the Loan, which consists of a term loan of up to US\$30,000,000 and a convertible loan of up to US\$10,000,000.

The Company may request for the drawdown of the Term Loan and the Convertible Loan by delivering to IFC a drawdown request at least 10 business days prior to the proposed date of drawdown. The Convertible Loan shall be drawn down in full at the same time of the first drawdown of the Term Loan.

The Term Loan is repayable in nine equal instalments at an interval of six months, commencing from 15 June 2014. The last instalment shall be repayable on 15 June 2018. The Convertible Loan (or any portion thereof which shall not have been converted) is repayable in seven equal instalments at an interval of six months, commencing from 15 June 2016. The last instalment shall be repayable on 15 June 2019. The Convertible Loan is not repayable during the Conversion Period or once a conversion notice is issued by IFC.

Any principal amount of the Term Loan and the Convertible Loan repaid under the Loan Agreement may not be re-borrowed.

The principal amount of the Convertible Loan is convertible into Conversion Shares at a Conversion Price of HK\$2.95 per Share at any time from the first disbursement of the Convertible Loan up to and including 15 June 2016.

Assuming a Conversion Price of HK\$2.95 per Share, the aggregate principal amount of the Convertible Loan of US\$10,000,000 (equivalent to approximately HK\$77,800,000) are convertible into approximately 26,372,881 Shares, representing approximately 1.78% of the issued share capital of the Company as at the date of this announcement and approximately 1.75% of the issued share capital of the Company as enlarged by the issue of the Convertible Shares (without taking into account any Shares which may be issued by the Company including Shares which may fall to be issued pursuant to the exercise of options under the Company's employee share option schemes).

The net proceeds of the Loan (after deducting the fees and expenses in relation to the obtaining of the Loan) are estimated to be approximately US\$39,250,000 (equivalent to approximately HK\$305,365,000), which are intended to be used wholly for funding the acquisition by the Group of forest plantations in the PRC for wood supply in the PRC and related working capital needs. As at the date of this announcement, no acquisition targets have been definitely identified by the Company and no binding agreement or commitment has been entered into by the Company in respect of the acquisition of forest plantations in the PRC. Further announcements will be made by the Company regarding its acquisition of forest plantations as and when appropriate.

The Conversion Shares, being a maximum of 26,372,881 Shares to be issued upon the exercise in full of the Conversion Right based on the Conversion Price, will be allotted and issued under the general mandate approved by the shareholders of the Company at the Company's annual general meeting held on 24 May 2012.

Application will be made by the Company to Listing Committee of the Stock Exchange for the listing of, and permission to deal in, the Conversion Shares.

## **INTRODUCTION**

The Board announces that on 15 January 2013, the Company entered into the Loan Agreement with IFC, pursuant to which IFC agreed to lend and the Company agreed to borrow the Loan, which consists of a term loan of up to US\$30,000,000 and a convertible loan of up to US\$10,000,000.

## **THE LOAN AGREEMENT**

Date: 15 January 2013

Parties: (i) the Company (as borrower)  
(ii) IFC (as lender)

IFC is a member of the World Bank group and is established by its Articles of Agreement among over 180 member countries, including the PRC. IFC is a direct shareholder of the Company. As at the date of this announcement, IFC is interested in approximately 7.29% of the issued share capital of the Company. To the best of the Directors' knowledge, information and belief, and after having made all reasonable enquiry, apart from holding approximately 7.29% of the issued share capital of the Company, IFC is a third party independent of the Company and connected persons of the Company.

### **Principal Terms of the Term Loan**

Principal amount: Up to US\$30,000,000

Drawdown: The Company may request for the drawdown of the Term Loan by delivering to IFC a drawdown request at least 10 business days prior to the proposed date of drawdown.

Interest: The outstanding principal of the Term Loan will bear interest at a rate representing the sum of 5% per annum and the LIBOR for six months on the interest determination date for the relevant interest period. Interest period of the Term Loan shall be a period of six months commencing from 15 June and 15 December in each year and interest accrued during the relevant interest period shall be payable in arrears semi-annually on 15 June and 15 December in each year.

Repayment: The Company shall repay the Term Loan in nine equal instalments at an interval of six months, commencing from 15 June 2014. The last instalment shall be repayable on 15 June 2018.

Any principal amount of the Term Loan repaid under the Loan Agreement may not be re-borrowed.

## **Principal Terms of the Convertible Loan**

Principal amount: Up to US\$10,000,000

Drawdown: The Company may request for the drawdown of the Convertible Loan by delivering to IFC a drawdown request at least 10 business days prior to the proposed date of drawdown.

The Convertible Loan shall be drawn down in full at the same time of the first drawdown of the Term Loan.

Interest: The outstanding principal of the Convertible Loan will bear interest at a rate representing the sum of (i) before 15 June 2016, 1% per annum, and thereafter, 5% per annum, and (ii) LIBOR for six months on the interest determination date for the relevant interest period. Interest period of the Convertible Loan shall be a period of six months commencing from 15 June and 15 December in each year and interest accrued during the relevant interest period shall be payable in arrears semi-annually on 15 June and 15 December in each year.

If IFC does not exercise its Conversion Right in respect of the entire Convertible Loan prior to the end of the Conversion Period, the Company shall pay, on the date of final repayment of the Convertible Loan, an additional interest on the Convertible Loan accruing at a rate which generates for IFC an internal rate of return of 12%.

Conversion Price: The principal amount of the Convertible Loan is convertible into Conversion Shares, at a Conversion Price of HK\$2.95 per Share, subject to customary adjustments to accommodate alteration of share capital, in accordance with the terms of the Loan Agreement.

The Conversion Price of HK\$2.95 per Share represents:

- (a) a premium of approximately 76.65% from the closing price of HK\$1.67 per Share as quoted on the Stock Exchange on 15 January 2013, being the date of the Loan Agreement;
- (b) a premium of approximately 73.12% from the average closing price of HK\$1.704 per Share as quoted on the Stock Exchange for the last five consecutive trading days up to and including the date of the Loan Agreement;
- (c) a premium of approximately 72.01% from the average closing price of HK\$1.715 per Share as quoted on the Stock Exchange for the last ten consecutive trading days up to and including the date of the Loan Agreement.

The Conversion Price was arrived at after arm's length negotiations between the Company and IFC with reference to the prevailing market price of the Shares.

Conversion Period:

The Convertible Loan is convertible in whole or in part into Conversion Shares at any time from the first disbursement of the Convertible Loan up to and including 15 June 2016.

Lock-up period of the Conversion Shares:

There is no restriction on the dealings in the Conversion Shares by IFC.

Ranking of the Conversion Shares:

The Conversion Shares, when allotted and issued, shall rank pari passu in all respects with the other Shares in issue.

Repayment: The Company shall repay the Convertible Loan (or any portion thereof which shall not have been converted) in seven equal instalments at an interval of six months, commencing from 15 June 2016. The last instalment shall be repayable on 15 June 2019. The Convertible Loan is not repayable during the Conversion Period or once a conversion notice is issued by IFC.

Any principal amount of the Convertible Loan repaid under the Loan Agreement may not be re-borrowed.

## Security

All amounts owing to IFC under the Loan Agreement shall be secured by:

- (a) a pledge of the entire registered capital of each of Guangdong Yingran and Kunshan Nature in favour of IFC (the “**Share Pledges**”);
- (b) a pledge of the Trademarks (including all the right, title and interest in and to the Trademarks) in favour of IFC (the “**Trademarks Pledge**”);
- (c) a charge over an offshore account with a cash balance of no less than US\$5,000,000 for the benefit of IFC (the “**Account Charge**”); and
- (d) a sponsor guarantee by Mr. Se in favour of IFC of up to US\$10,000,000 of the obligations of the Company under the Loan Agreement (the “**Sponsor Guarantee**” together with the Share Pledges, the Trademarks Pledge and the Account Charge, the “**Security**”).

Guangdong Yingran is engaged in the manufacturing of laminated flooring and has its manufacturing facilities located in Guangdong Province, the PRC. Guangdong Yingran is a limited liability company established in the PRC on 16 January 2007 and is an indirect wholly-owned subsidiary of the Company.

Kunshan Nature is engaged in the manufacturing of engineered flooring and has its manufacturing facilities located in Jiangsu Province, the PRC. Kunshan Nature is a limited liability company established in the PRC on 29 December 2006 and is an indirect wholly-owned subsidiary of the Company.

## Purpose of the Loan

Assuming the Loan are drawn down in full, the net proceeds of the Loans (after deducting the fees and expenses in relation to the obtaining of the Loan) are estimated to be approximately US\$39,250,000 (equivalent to approximately HK\$305,365,000),

which are intended to be used wholly for funding the acquisition by the Group of forest plantations in the PRC for wood supply in the PRC and related working capital needs. Based on the estimated net proceeds attributable to the Convertible Loan, the net issue price of the Conversion Shares is approximately HK\$2.89 per Conversion Share.

Before the disbursement of the Loans, the Company must deliver a feasibility report on its proposed acquisition of forestry plantations, which shall be in form and substance satisfactory to IFC. As at the date of this announcement, no acquisition targets have been definitely identified by the Company and no binding agreement or commitment has been entered into by the Company in respect of the acquisition of forest plantations in the PRC. Further announcements will be made by the Company regarding its acquisition of forest plantations as and when appropriate.

### **Undertakings by the Company and the Principal Shareholders**

Pursuant to the share retention agreements to be entered into between IFC and the Principal Shareholders as well as the Company (the “**Share Retention Agreements**”), the Principal Shareholders will maintain legal and beneficial ownership of at least 30% of the Shares, and the Company will maintain legal and beneficial ownership of at least 95% of the share capital of its major operating subsidiaries, directly or indirectly, at all times so long as any amount of the Loan remains available for disbursement by IFC and, thereafter, until all amounts payable to IFC under the Loan Agreement has been paid in full (save for any part of the Convertible Loan which has been converted).

As at the date of this announcement, the Principal Shareholders are interested in 718,921,730 Shares, representing approximately 48.52% of the issued share capital of the Company, through Freewings Development Co., Ltd. In addition, Mr. Se is interested in 26,300,000 Shares, representing approximately 1.77% of the issued share capital of the Company.

The Company shall not declare or pay any dividends or make any other distributions to its shareholders other than cash dividends made out of retained earnings of the Company (on consolidated basis) and provided that at the time of and after giving effect to such dividends or distributions, (1) no event of default or potential event of default under the Loan Agreement shall have occurred and be continuing or would result therefrom and (2) the Company would comply with the relevant financial ratios as set out in the Loan Agreement.

It will be an event of default under the Loan Agreement if the parties to the Loan Agreement, the documents in respect of the Security (the “**Security Documents**”) or the Share Retention Agreements (other than IFC) fail to comply with their respective obligations thereunder. If any event of default occurs, IFC may, by notice to the Company, require the Company to repay the Loan or any part thereof immediately.

## **Conditions of Disbursement of the Loan**

The obligation of IFC to make disbursement of the Loan (whether it is the Term Loan or the Convertible Loan) is subject to the fulfilment of a number of conditions, including the following key conditions:

- (i) the Loan Agreement, the Security Documents and the Share Retention Agreements having been entered into by the parties thereto and having become (or, as the case may be, remain) unconditional and fully effective in accordance with their respective terms and the Security having been created and perfected as first priority security interests in all assets and rights subject to the Security Documents to IFC's satisfaction;
- (ii) the Company having obtained all necessary consents, registrations, filings, agreements, notarisations, certificates, licences, approvals, permits, authority and exemptions from the relevant authorities in relation to, among other things, the obtaining of the Loans, the operations of the members of the Group, the execution and performance by the members of the Group of their respective obligations under the Loan Agreement, the Security Documents and the Share Retention Agreements and the acquisition of forest plantations in the PRC;
- (iii) IFC having received legal opinions and other documents addressing matters as set forth in the Loan Agreement;
- (iv) IFC having received the fees and expenses payable by the Company under the Loan Agreement;
- (v) the Company having completed the social and environmental measures which are acceptable to IFC;
- (vi) no event of default or potential event of default under the Loan Agreement having been occurred and is continuing;
- (vii) the Company having complied with and is in compliance with all of its obligations, undertakings and covenants under the Loan Agreement;
- (viii) the representations and warranties made by the Company under the Loan Agreement remaining true and correct on and as of the date of the disbursement of the Loan;
- (ix) no members of the Group having incurred any material loss or liability since the date of the Loan Agreement;

- (x) nothing having occurred since the date of the Loan Agreement which has or could reasonably be expected to have a material adverse effect on the business, operations, financial conditions or prospects of the Company and its subsidiaries;
- (xi) the proceeds of the Loans being applied in accordance with the terms of the Loan Agreement;
- (xii) the Company not having violated its memorandum and articles of association, any document to which it is party or by which it is bound or any law, rule, regulation or authorisation as a result of the disbursement of the Loan;
- (xiii) the Stock Exchange granting the listing and admission to trading of the Conversion Shares, subject to any conditions that are customary and reasonably satisfactory to IFC; and
- (xiv) the Company having delivered a feasibility report, including financial, technical and environmental and social parameters, on its proposed acquisition of forest plantations in the PRC, in form and substance satisfactory to IFC.

## **EFFECT OF THE SHAREHOLDING STRUCTURE**

Assuming a Conversion Price of HK\$2.95 per Share, the aggregate principal amount of the Convertible Loan of US\$10,000,000 (equivalent to approximately HK\$77,800,000) are convertible into approximately 26,372,881 Shares, representing approximately 1.78% of the issued share capital of the Company as at the date of this announcement and approximately 1.75% of the issued share capital of the Company as enlarged by the issue of the Convertible Shares (without taking into account any Shares which may be issued by the Company including Shares which may fall to be issued pursuant to the exercise of options under the Company's employee share option schemes).

To the best knowledge of the Company, assuming that there is no change in the issued share capital of the Company prior to the conversion of the Convertible Loan, the shareholding structure of the Company (i) as at the date of this announcement; and (ii) assuming full conversion of the full principal amount of the Convertible Loan at the Conversion Price of HK\$2.95 per Share, will be as follows:

Name of shareholders	As at the date of this announcement		Assuming full conversion of the Convertible Loan at the Conversion Price of HK\$2.95 per Share	
	Number of Shares	Approximate percentage of the issued share capital of the Company	Number of Shares	Approximate percentage of the enlarged issued share capital of the Company
Freewings Development Co., Ltd. <sup>Note 1</sup>	718,921,730	48.52	718,921,730	47.67
Mr. Se <sup>Note 2</sup>	26,300,000	1.77	26,300,000	1.74
MS Flooring Holding Co., Ltd. <sup>Note 3</sup>	269,999,990	18.22	269,999,990	17.90
<b>Public shareholders</b>				
IFC	108,000,000	7.29	134,372,881	8.91
Other public shareholders	<u>358,602,270</u>	<u>24.20</u>	<u>358,602,270</u>	<u>23.78</u>
<b>Total</b>	<b><u>1,481,823,990</u></b>	<b><u>100%</u></b>	<b><u>1,508,196,871</u></b>	<b><u>100%</u></b>

*Notes:*

1. Freewings Development Co., Ltd. is a private company owned by Team One Investments Limited as to 44.92%, Trader World Limited as to 39.81%, Mr. She Jian Bin as to 8.69%, Mr. Chow Chi Keung Savio as to 4.39% and Mr. Nam Cheung Ming Louis as to 2.19%. Team One Investments Limited and Trader World Limited are wholly-owned by Mr. Se and Ms. Un Son I, respectively. Mr. Se, Ms. Un Son I, Mr. She Jian Bin and Mr. Chow Chi Keung Savio are executive Directors.
2. Amongst these 26,300,000 Shares, 400,000 Shares are owned by Loyal Winner Limited. Loyal Winner Limited is a private company beneficially owned as to 50% by Mr. Se and 50% by Ms. Un Son I. Ms. Un Son I is the spouse of Mr. Se.
3. MS Flooring Holding Co., Ltd. is an exempted company incorporated in the Cayman Islands, and is wholly-owned by Morgan Stanley Private Equity Asia III Holdings (Cayman) Ltd. Morgan Stanley Private Equity Asia III Holdings (Cayman) Ltd. is an exempted company incorporated in the Cayman Islands with limited liability, whose majority shareholder is Morgan Stanley Private Equity Asia III, L.P., a fund managed by the private equity arm of Morgan Stanley. The general partner of Morgan Stanley Private Equity Asia III, L.P. is Morgan Stanley Private Equity Asia III, L.L.C., the managing member of which is Morgan Stanley Private Equity Asia III, Inc., an investment advisor registered with the U.S. Securities and Exchange Commission and which is an indirect wholly-owned subsidiary of Morgan Stanley.

## **REASONS FOR ENTERING INTO THE LOAN AGREEMENT**

The Company is an investment holding company. The principal activities of the Group are the manufacturing and sale of flooring products as well as the trading of timber and flooring products.

The principal raw materials used in the Company's production of wood flooring products include timber, veneers, fiberboards and plywood. The Group began to selectively acquire strategic upstream forest assets in 2009. The Company expects its investment in forest assets could help ensure a more stable supply of high-quality timber for the manufacturing of its branded wood flooring products.

The Directors consider that the Loan will provide the Company with additional funding for the possible acquisition of forest plantations by the Group in the PRC should opportunities arise, at reasonable costs and without having an immediate dilution effect on the shareholding of the existing shareholders of the Company. Further, if the Conversion Right is to be exercised, the capital base of the Company shall be strengthened.

The Directors consider that the Conversion Price and the terms of the Loan Agreement are fair and reasonable and are in the interests of the Company and its shareholders as a whole.

## **GENERAL MANDATE**

Pursuant to a general mandate approved by the shareholders of the Company at the Company's annual general meeting held on 24 May 2012 (the "**General Mandate**"), the Company is allowed to allot, issue and deal with a maximum of 301,652,998 Shares. No Shares or convertible securities have been issued by the Company pursuant to the General Mandate prior to the date of this announcement. The Conversion Shares, being a maximum of 26,372,881 Shares to be issued upon the exercise in full of the Conversion Right based on the Conversion Price, will be allotted and issued under the General Mandate. As such, the issue of the Conversion Shares is not subject to approval by the shareholders of the Company.

The Company did not conduct any fund raising activities during the last 12 months immediately preceding the date of this announcement.

## **APPLICATION FOR LISTING**

Application will be made by the Company to Listing Committee of the Stock Exchange for the listing of, and permission to deal in, the Conversion Shares.

## DEFINITIONS

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

“Board”	the board of Directors of the Company
“Company”	China Flooring Holding Company Limited, a company incorporated in the Cayman Islands with limited liability, the Shares of which are listed on the main board of the Stock Exchange
“connected person”	has the meaning ascribed thereto under the Listing Rules
“Conversion Period”	the period during which the Convertible Loan is convertible into Conversion Shares
“Conversion Price”	the conversion price of HK\$2.95 (subject to adjustment) per Conversion Share upon conversion of the Convertible Loan
“Conversion Right”	the right to convert the Convertible Loan into Conversion Shares pursuant to the Loan Agreement
“Conversion Shares”	the Shares which may fall to be allotted and issued upon exercise of the Conversion Right
“Convertible Loan”	the convertible loan of up to US\$10,000,000 granted by IFC to the Company pursuant to the Loan Agreement
“Directors”	the directors of the Company
“Group”	the Company and its subsidiaries
“Guangdong Yingran”	Guangdong Yingran Wood Industry Co., Ltd. (廣東盈然木業有限公司), a company established under the laws of the PRC and an indirect wholly-owned subsidiary of the Company
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“Hong Kong”	Hong Kong Special Administrative Region of the People’s Republic of China

“IFC”	International Finance Corporation, member of the World Bank group and a direct shareholder of the Company
“Kunshan Nature”	Yingyi-Nature (Kunshan) Wood Industry Co., Ltd. (昆山盈意大自然木業有限公司), a company established under the laws of the PRC and an indirect wholly-owned subsidiary of the Company
“Loan”	collectively, the Term Loan and the Convertible Loan
“LIBOR”	the British Bankers’ Association interbank offered rates for deposits in US\$
“Listing Rules”	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited
“Loan Agreement”	the loan agreement dated 15 January 2013 and entered into between the Company and IFC
“Mr. Se”	Mr. Se Hok Pan, the Chairman and a controlling shareholder of the Company
“PRC”	the People’s Republic of China, for the purpose of this announcement, excluding the Hong Kong Special Administrative Region, the Macau Special Administrative Region and Taiwan
“Principal Shareholders”	together, Mr. Se, Ms. Un Son I, Mr. She Jian Bin, Mr. Chow Chi Keung, Savio and Mr. Nam Cheung Ming, Louis
“Share(s)”	ordinary share(s) having a par value of US\$0.001 each in the capital of the Company
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Term Loan”	the term loan of up to US\$30,000,000 granted by IFC to the Company pursuant to the Loan Agreement

“Trademarks”	together, the “Nature” trademark with registration number of 5326609 (class 19) and the “大自然” trademark with registration number of 4587176 (class 19), both of which are registered in the PRC in the name of Great Nature Investments and Holdings Limited, a wholly-owned subsidiary of the Company
“US\$”	United States dollars, the lawful currency of the United States
“World Bank”	the International Bank for Reconstruction and Development, an international organisation established by Articles of Agreement among its members countries
“%”	per cent.

*This announcement contains translations between US\$ and HK\$ at US\$1.00 = HK\$7.78. The translations are not representations that the US\$ and HK\$ amounts could actually be converted at such rate, if at all.*

By Order of the Board  
**China Flooring Holding Company Limited**  
**Se Hok Pan**  
*Chairman and Executive Director*

Hong Kong, 15 January 2013

*As at the date of this announcement, the Board of Directors of the Company comprises Mr. SE Hok Pan, Ms. UN Son I, Mr. SHE Jian Bin and Mr. CHOW Chi Keung, Savio, as executive directors; Mr. Homer SUN and Mr. TEOH Chun Ming as non-executive directors; Professor LI Kwok Cheung, Arthur, Mr. ZHANG Sen Lin, Mr. CHAN Siu Wing, Raymond and Mr. HO King Fung, Eric as independent non-executive directors.*