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CHINA INNOVATIVE FINANCE GROUP LIMITED

中國新金融集團有限公司

(Incorporated in Bermuda with limited liability)

(Stock Code: 412)

ISSUE OF US\$40,000,000 SECURED CONVERTIBLE BONDS UNDER GENERAL MANDATE

THE SUBSCRIPTION AGREEMENT

On 27 July 2016 (after trading hours), the Company entered into the Subscription Agreement with the Subscriber, pursuant to which the Subscriber has agreed to subscribe, and the Company has agreed to issue, the Convertible Bonds in an aggregate principal amount of US\$40,000,000.

As at the date of this announcement, the Company has an aggregate of 19,310,448,342 Shares in issue. Assuming (i) there is no other change in the existing shareholding of the Company; and (ii) full conversion of the Convertible Bonds, based on the initial Conversion Price of HK\$0.72 per Conversion Share, a maximum of 433,333,333 Conversion Shares will be issued, representing (i) approximately 2.24% of the existing issued share capital of the Company as at the date of this announcement; and (ii) approximately 2.19% of the issued share capital of the Company as enlarged by the allotment and issue of the Conversion Shares.

USE OF PROCEEDS

The estimated net proceeds from the issue of the Convertible Bonds (after deducting all related expenses), are estimated to be approximately HK\$310,000,000, which are intended to be used for the redemption of the Previous Convertible Bonds. Such Previous Convertible Bonds will be redeemed upon the issuance of the Convertible Bonds.

GENERAL MANDATE

The Conversion Shares will be allotted and issued pursuant to the General Mandate. Accordingly, the issue of the Convertible Bonds and the allotment and issue of the Conversion Shares (upon conversion of the Convertible Bonds) are not subject to Shareholders' approval.

GENERAL

The Company will make an application to the Listing Committee for the listing of, and permission to deal in, the Conversion Shares on the Stock Exchange. No application will be made by the Company to the Listing Committee for listing of the Convertible Bonds.

Completion of the Subscription Agreement is subject to the fulfilment of all conditions set out in the paragraph headed “Conditions precedent” below. Please refer to the paragraph headed “Principal terms of the Convertible Bonds” below for detailed terms of the Convertible Bonds. As the issue of the Convertible Bonds are subject to the fulfilment of certain conditions precedent and may or may not proceed, Shareholders and potential investors are advised to exercise caution when dealing in the Shares.

On 27 July 2016 (after trading hours), the Company entered into the Subscription Agreement with the Subscriber, pursuant to which the Subscriber has agreed to subscribe, and the Company has agreed to issue the Convertible Bonds in an aggregate principal amount of US\$40,000,000. Completion of the Subscription Agreement is subject to the fulfilment of all conditions set out in the paragraph headed “Conditions precedent” below. Details of the terms of the Subscription Agreement and the Convertible Bonds are summarised below:

THE SUBSCRIPTION AGREEMENT

Date : 27 July 2016 (after trading hours)
Issuer : The Company
Subscriber : The Subscriber

To the best of the Directors’ knowledge, information and belief, having made all reasonable enquiries, as at the date of this announcement, the Subscriber and its ultimate beneficial owner(s) are third parties independent of and are not connected persons (as defined under the Listing Rules) of the Company.

Subscription of the Convertible Bonds

Subject to the fulfilment of the conditions precedent set out below, the Subscriber shall subscribe for, and the Company shall issue, the Convertible Bonds in an aggregate principal amount of US\$40,000,000 and the said amount shall be satisfied by the redemption of the Previous Convertible Bonds.

Conditions Precedent

Completion of the Subscription shall be conditional upon, *inter alia*:

- (a) the Subscriber having performed and completed to its satisfaction due diligence review of business, affairs, operations and financial position of the Company and the Group thereof;
- (b) the representations and warranties of the Company contained in the Subscription Agreement and the related documents being true, accurate, correct and not misleading as at the Closing Date;

- (c) the Listing Committee of the Stock Exchange having granted approval of the listing of, and permission to deal in the Conversion Shares on the Stock Exchange and such approval and permission remaining in full force and effect;
- (d) the Subscriber having performed all necessary external, internal and corporate approvals and checks under all applicable laws and regulations, including but not limited to investment committee approval;
- (e) the Subscriber having satisfied that the Collateral Ratio is not less than 400% on the Closing Date;
- (f) no event of default is continuing or would result from the proposed issue by the Company to the Subscriber; and
- (g) Leading Fortune having duly executed the Share Charge in favour of the Subscriber.

Subject to the fulfilment of the above conditions precedent, the Subscription of the Convertible Bonds shall be completed on the Closing Date. On the Closing Date, the Company shall issue to the Subscriber the Convertible Bonds and the Subscriber shall make payment for the principal amounts of the Convertible Bonds being subscribed.

PRINCIPAL TERMS OF THE CONVERTIBLE BONDS

The principal terms of the Convertible Bonds are summarised below:

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|---------------------------|---|--|
| Principal amount | : | Up to an aggregate principal amount of US\$40,000,000. |
| Interest | : | 8% per annum payable in arrears every six (6) months after the date of issue of the Convertible Bonds. |
| Maturity Date | : | The date falling on the twenty four (24) months from the date of issue of the Convertible Bonds. |
| Maturity Redemption Price | : | The Company shall redeem all of the Convertible Bonds on the Maturity Date at their Applicable Redemption Amount. |
| Conversion Price | : | The Conversion Price is HK\$0.72 per Conversion Share, subject to the adjustments as set out in accordance with the terms and conditions of the Bond Instrument. |

The Conversion Price of HK\$0.72 per Conversion Share represents:

- (i) no discount to the closing price of HK\$0.72 per Share as quoted on the Stock Exchange on the date of the Subscription Agreement; and
- (ii) a discount of approximately 4% to the average of the closing price of HK\$0.75 per Share as quoted on the Stock Exchange for the last five consecutive trading days up to and including the date immediately prior to the date of the Subscription Agreement.

The Conversion Price was determined after arm's length negotiations between the Company and the Subscriber after considering the current market sentiment, the recent market prices and performance of the Shares, the historical financial performance and the business prospects of the Group.

- Adjustments to the Conversion Price : The Conversion Price shall be, from time to time, subject to adjustment upon occurrence of, *inter alia*, any of the following events:
- i. consolidation, subdivision or reclassification of Shares;
 - ii. capitalisation of profits or reserves;
 - iii. capital distributions;
 - iv. offer of new Shares for subscription by way of a rights issue, or a grant of options or warrants or other rights to subscribe for new Shares, at a price which is less than the market price at the date of the announcement of the terms of such offer or grant per Share to Shareholders;
 - v. offer of other securities for subscription by way of a rights issue, or a grant of options or warrants or other rights to subscribe for other securities, at a price which is less than the market price at the date of the announcement of the terms of such issue;
 - vi. issue of Shares being made wholly for cash at a price less than the market price per Share at the date of announcement of the terms of such issue;
 - vii. any modification of the rights of conversion, exchange or subscription attaching to such securities at a price less than the market price per Share at the date of announcement of the terms of such modification.
- No adjustment will be made to the Convertible Bonds to the extent that it will cause the Company to allot and issue Shares in excess of the General Mandate.
- Conversion Shares : Based on the initial Conversion Price of HK\$0.72, a maximum number of 433,333,333 Conversion Shares may fall to be allotted and issued upon exercise by the Bondholders of the Conversion Rights attaching to the Convertible Bonds in full.
- Conversion period : Any time after the date of issue of the Convertible Bonds and up to and including the Maturity Date.
- Transferability : The Convertible Bonds are transferrable.

- Status of the Convertible Bonds : The Convertible Bonds constitute direct, unsubordinated, unconditional secured obligations of the Company and shall at all times rank *pari passu* and without any preference or priority among themselves. The payment obligations of the Company under the Convertible Bonds shall, save for such exceptions as may be provided by mandatory provisions of applicable laws and shall at all times rank at least equally with all the Company's other present and future direct, secured, unsubordinated and unconditional obligations.
- Ranking of the Conversion Shares : The Conversion Shares will rank *pari passu* in all respects with the Shares in issue.
- Voting : The Bondholder(s) shall not be entitled to attend or vote at any meetings of the Company by reason only it being the Bondholder(s).
- Application for Listing : No application will be made by the Company for the listing of the Convertible Bonds on the Stock Exchange or any other stock exchange. An application will be made by the Company to the Listing Committee for the listing of, and permission to deal in, the Conversion Shares.

GENERAL MANDATE

Upon exercise in full of the conversion rights attaching to the Convertible Bonds at the initial Conversion Price, a maximum of 433,333,333 Conversion Shares shall be allotted and issued under the General Mandate granted to the Directors pursuant to an ordinary resolution passed by the Shareholders at the annual general meeting of the Company held on 18 September 2015. Accordingly, the issue of the Convertible Bonds and the allotment and issue of the Conversion Shares (upon conversion of the Convertible Bonds) are not subject to shareholders' approval. Under the General Mandate, the Company is authorised to allot, issue and otherwise deal with new Shares (including the issue of any securities convertible into Shares, or options, warrants or similar rights to subscribe for any Shares) up to a maximum of 20% of the aggregate nominal amount of the issued share capital of the Company as at the date of the aforesaid annual general meeting, which amounts to 3,860,966,073 new Shares. As at the date of this announcement, part of the General Mandate involving (i) 573,529,411 Shares have been utilized in connection with the issue of the convertible bond to Taiping Trustees, details of which have been disclosed in the announcement of the Company dated 13 October 2015 and 28 October 2015; (ii) 433,333,333 Shares have been utilized in connection with the issue of the convertible bond to Haitong International, details of which have been disclosed in the announcement of the Company dated 15 December 2015 and 24 December 2015; and (iii) 433,333,333 Shares have been utilized in connection with the issue of the convertible bond to the Subscriber, details of which have been disclosed in the announcement of the Company dated 24 December 2015 and 31 December 2015.

REASONS FOR THE ISSUE OF THE SUBSCRIPTION AND USE OF PROCEEDS

The Company is a financial services company. The principal activity of the Group is to provide financial services, including (i) financial leasing; (ii) investment in listed and unlisted securities; (iii) money lender business; and (iv) asset trading platform.

The estimated net proceeds from the issue of the Convertible Bonds (after deducting all related expenses), are estimated to be approximately HK\$310,000,000, which are intended to be used for the redemption of the Previous Convertible Bonds issued by the Company to the Subscriber on 31 December 2015, details of which have been disclosed in the announcement of the Company dated 24 December 2015 and 31 December 2015. The Board is of the view that the redemption of the Previous Convertible Bonds has enabled the Company to enter into the Subscription Agreement on more favourable terms to the Group as compared with the Previous Convertible Bonds in terms of maturity period and effective interest rate. The Previous Convertible Bonds will be redeemed upon the issuance of the Convertible Bonds. The net price of each Conversion Share will be approximately HK\$0.72.

Based on the foregoing, 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 on normal commercial terms and are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

INFORMATION ON THE SUBSCRIBER

The Subscriber is a limited liability company incorporated in the British Virgin Islands and is principally engaged in investment. 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 third parties independent of and are not connected persons (as defined under the Listing Rules) of the Company.

EFFECTS OF THE SUBSCRIPTION ON THE SHAREHOLDING STRUCTURE OF THE COMPANY

For illustrative purposes, the tables below set out the shareholding structure of the Company (i) as at the date of this announcement; (ii) immediately after full conversion of the Convertible Bonds at the initial Conversion Price pursuant to the Subscription Agreement (assuming that there is no other change in the existing shareholding of the Company); and (iii) immediately after full conversion of the Convertible Bonds at the initial Conversion Price pursuant to the Subscription Agreement and exercise of share options of the Company (assuming that there is no other change in the existing shareholding of the Company):

Shareholders	As at the date of this announcement		Immediately after full conversion of the Convertible Bonds at the initial Conversion Price (assuming that there is no other change in the existing shareholding of the Company)		Immediately after full conversion of the Convertible Bonds at the initial Conversion Price and exercise of share options of the Company (assuming that there is no other change in the existing shareholding of the Company)	
	No. of Shares	Approximate %	No. of Shares	Approximate %	No. of Shares	Approximate %
Hao Tian Development Group Limited (<i>Note 1</i>)	5,241,500,000	27.14	5,241,500,000	26.55	5,241,500,000	26.32
Yau Wai Lung (<i>Note 2</i>)	3,721,708,000	19.27	3,721,708,000	18.85	3,891,108,000	19.54
Ji Kewei (<i>Note 3</i>)	2,290,565,191	11.86	2,290,565,191	11.60	2,290,565,191	11.50
CST Mining Group Limited (<i>Note 4</i>)	1,662,330,000	8.61	1,662,330,000	8.42	1,662,330,000	8.35
Huang Rulun (<i>Note 5</i>)	1,320,000,000	6.84	1,320,000,000	6.69	1,320,000,000	6.63
Other public Shareholders	5,074,345,151	26.28	5,074,345,151	25.70	5,074,345,151	25.48
The Subscriber			433,333,333	2.19	433,333,333	2.18
Total	<u>19,310,448,342</u>	<u>100.00</u>	<u>19,743,781,675</u>	<u>100.00</u>	<u>19,913,181,675</u>	<u>100.00</u>

Notes:

- Hao Tian Development Group Limited is deemed to be interested in the 5,241,500,000 Shares held by Hao Tian Management (Hong Kong) Limited pursuant to the Securities and Futures Ordinance (the "SFO") by virtue of Hao Tian Management (Hong Kong) Limited being a subsidiary of Win Team Investments Limited, which in turn is a subsidiary of Hao Tian Development Group Limited.
- Mr. Yau Wai Lung, the Director, is deemed to be interested in the 3,721,708,000 Shares held by Leading Fortune International Group Limited pursuant to the SFO by virtue of his 100% beneficial interest in Leading Fortune International Group Limited. 169,400,000 share options were granted to Mr. Yau Wai Lung by the Company under the share option scheme adopted on 18 August 2014.
- Mr. Ji Kewei, the Director, is deemed to be interested in the 2,284,947,214 Shares held by China Hover Dragon Group Limited pursuant to the SFO by virtue of Chinanet Consultancy Limited (wholly-owned by Mr. Ji Kewei) holding 50% issued shares of China Hover Dragon Group Limited. Mr. Ji Kewei is personally interested in 5,617,977 shares as part of annual emolument for his terms of office as executive director, deputy chairman and chief executive of the Company commencing from 11 September 2015.
- CST Mining Group Limited is deemed to be interested in the 1,662,330,000 shares held by Skytop Technology Limited pursuant to the SFO by virtue of Skytop Technology Limited being a subsidiary of Perfect Touch Technology Inc., which in turn is a subsidiary of CST Mining Group Limited.

5. Mr. Huang Rulun is deemed to be interested in the 1,320,000,000 Shares held by Century Golden Resources Investment Co. Ltd. pursuant to the SFO by virtue of his controlling interest in Century Golden Resources Investment Co. Ltd.

EQUITY FUND RAISING ACTIVITIES IN THE PAST TWELVE MONTHS

The Company has carried out the following fund raising activities in the past 12 months immediately preceding the date of this announcement.

Date of announcement	Event	Approximate net proceeds	Intended use of net proceeds	Actual use of proceeds as at the date of this announcement
13 and 28 October 2015	Issue of convertible bonds under the General Mandate	Approximately HK\$389,000,000	Enhancing the share capital and working capital of Hong Kong Leasing Limited	Contribution to the share capital and working capital of leasing business
15 and 24 December 2015	Issue of convertible bonds under the General Mandate	Approximately HK\$293,000,000	Business development and general working capital of the Group	Money leading business, securities investment and general working capital
24 and 31 December 2015	Issue of convertible bonds under the General Mandate	Approximately HK\$305,000,000	Business development and general working capital of the Group	Money leading business, securities investment and general working capital

Save as disclosed above, the Company has not conducted any fund raising activities in the past twelve months before the date of this announcement.

PUBLIC FLOAT

The Company will monitor closely and will ensure that it maintains the minimum public float percentage as prescribed under the Listing Rules from time to time. The Company's public float will not fall below the minimum prescribed percentage under the Listing Rules upon conversion of the Convertible Bonds.

GENERAL

The Company will make an application to the Listing Committee for the listing of, and permission to deal in, the Conversion Shares on the Stock Exchange. No application will be made by the Company to the Listing Committee for the listing of the Convertible Bonds.

Completion of the Subscription is subject to the satisfaction of the conditions precedent in the Subscription Agreement. As the Subscription may or may not proceed, Shareholders and potential investors are advised to exercise caution when dealing in the Shares.

DEFINITIONS

“Applicable redemption Amount”	the aggregate of (i) the principal amount outstanding of the Convertible Bond; (ii) the outstanding interest up to the date of redemption; and (iii) any default interest; and any other outstanding amount due but unpaid under the Convertible Bond and the Subscription Agreement
“associate(s)”	has the same meaning ascribed to it in the Listing Rules
“Board”	the board of Directors of the Company
“Bond Instrument”	the instrument to be executed as a deed by the Company constituting the Convertible Bonds and issued upon Completion
“Bondholder(s)”	a holder(s) of the Convertible Bond and in whose name such Convertible Bond is for the time being registered in the register of bondholder(s) kept by the Company
“Charged Shares”	(i) all those Shares which have been deposited to the Securities Account as at the date of the Share Charge and (ii) all other Shares which will be deposited from time to time into the Securities Account
“Closing Date”	5 August 2016 or such other date as the Company and the Subscriber may mutually agree upon
“Collateral Ratio”	at any time, the quotient of the Collateral Value divided by the aggregate principal amount of all outstanding Convertible Bonds less the amount of any cash in the Securities Account
“Collateral Value”	at any time, the number of Charged Shares multiplied by the closing price of each Share quoted on the Stock Exchange on that day
“Company”	China Innovative Finance Group Limited, a company incorporated in Bermuda with limited liability, the Shares of which are listed on the main board of the Stock Exchange
“Completion”	completion of the issue of the Convertible Bonds by the Company and Subscription as contemplated under the Subscription Agreement
“connected person(s)”	has the same meaning ascribed to it under the Listing Rules
“Conversion Period”	the period commencing from the date of issue of the Convertible Bonds and up to and including the Maturity Date
“Conversion Price”	HK\$0.72, being the conversion price per Share at which the Convertible Bonds may be converted into Shares and subject to adjustments as set out and in accordance with the terms and conditions of the Convertible Bonds (if any)
“Conversion Rights”	the rights attached to the Convertible Bonds to convert the same or a part thereof into Conversion Shares as referred to in the Bond Instrument

“Conversion Share(s)”	the new Share(s) which may be allotted and issued by the Company upon exercise by the Bondholders of the Conversion Rights attaching to the Convertible Bonds
“Convertible Bonds”	US\$40,000,000 8 per cent. secured redeemable convertible bonds due 2018 convertible into the Shares, with the benefit of and subject to the terms and conditions of the Subscription Agreement and the Bond Instrument and due on the Maturity Date
“Director(s)”	the director(s) of the Company
“General Mandate”	the general mandate granted to the Directors by the Shareholders at the annual general meeting of the Company held on 18 September 2015 to allot, issue and deal with up to 3,860,966,073 new Share, being 20% of the total number of issued share capital of the Company as at the date of the said annual general meeting
“Group”	the Company and its subsidiaries
“Haitong International”	Haitong International Investment Fund SPC, an open-ended exempted segregated portfolio company incorporated with limited liability under the laws of the Cayman Islands
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“Hong Kong”	the Hong Kong Special Administrative Region of The People’s Republic of China
“Independent Third Party(ies)”	a person(s) or company(ies) and their respective ultimate beneficial owner(s) who, to the best of the Directors’ knowledge, information and belief having made all reasonable enquiries, is not a connected person of the Company or an associate of such connected person
“Leading Fortune”	Leading Fortune International Group Limited, a company incorporated in the British Virgin Islands with limited liability and is a substantial shareholder, which is wholly-owned by Mr. Yau Wai Lung, an executive director
“Listing Committee”	has the meaning ascribed to it under the Listing Rules
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Maturity Date”	the date falling on the twenty-four (24) month from the date of issue
“Previous Convertible Bonds”	the convertible bonds issued by the Company to the Subscriber in an aggregate amount of US\$40,000,000 on 31 December 2015
“Safekeeping Agent”	CCB International Securities Limited, a company incorporated under the laws of Hong Kong or such entity as may be appointed from time to time by the Bondholder to provide nominee services in respect of the Charged Shares

“Securities Account”	the securities and cash account in the name of Leading Fortune held with the Safekeeping Agent and all additions to or renewals or replacements thereof (in whatever currency)
“Share Charge”	the share charge in respect of certain number of Shares executed by Leading Fortune in favour of the Subscriber, the execution of which would result in the Collateral Ratio being not less than 400%
“Shareholder(s)”	holder(s) of Shares
“Shares”	ordinary shares of HK\$0.00025 each in the share capital of the Company
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Subscriber”	Sea Venture Investments Limited, being a limited liability company incorporated in the British Virgin Islands and an Independent Third Party
“Subscription”	the subscription of the Convertible Bonds by the Subscriber pursuant to the Subscription Agreement
“Subscription Agreement”	the subscription agreement dated 27 July 2016 entered into between the Company and the Subscriber in relation to the Subscription
“Taiping Trustees”	Taiping Trustees Limited, a company incorporated in Hong Kong with limited liability and an Independent Third Party
“%”	per cent.
“US\$”	the lawful currency of the United State of America

By order of the Board
China Innovative Finance Group Limited
Ji Kewei
Deputy Chairman

Hong Kong, 27 July 2016

As at the date of this announcement, the Company has three executive directors, namely Mr. Ji Kewei, Mr. Yau Wai Lung and Mr. Ma Chao; one non-executive director, namely Mr. Qiu Jianyang; and three independent non-executive directors, namely Mr. To Shing Chuen, Mr. Chung Yuk Lun and Mr. Cheung Wing Ping.