
THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

If you are in doubt as to any aspect of this circular or as to the action you should take, you should consult your stockbroker or other registered dealer in securities, bank manager, solicitor, professional accountant or other professional adviser.

If you have sold or transferred all your shares in **China Flavors and Fragrances Company Limited** (中國香精香料有限公司), you should at once hand this circular and the accompanying proxy form to the purchaser or the transferee or to the bank, stock broker or other agent through whom the sale or transfer was effected for transmission to the purchaser or the transferee.

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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)

**(1) DISCLOSEABLE AND CONNECTED TRANSACTION
FORMATION OF JOINT VENTURE**
**(2) DISCLOSEABLE AND CONNECTED TRANSACTION
FINANCIAL ASSISTANCE**
AND
(3) NOTICE OF EGM

**Independent financial adviser to the Independent Board Committee
and Independent Shareholders**

Nuada Limited

Corporate Finance Advisory

Capitalised terms used in this cover page shall have the same meanings as those defined in this circular unless otherwise stated.

A letter from the Board is set out on pages 5 to 15 of this circular. A letter from the Independent Board Committee containing its advice to the Independent Shareholders is set out on pages 16 to 17 of this circular. A letter from the Independent Financial Adviser, containing its advice to the Independent Board Committee and the Independent Shareholders is set out on pages 18 to 33 of this circular.

A notice convening the EGM to be held on Friday, 19 December 2014 at 11:00 am at Pacific Room, Island Pacific Hotel, 152 Connaught Road West, Hong Kong is set out on pages EGM-1 to EGM-3 of this circular. A form of proxy for use at the EGM is enclosed with the notice of the EGM.

Whether or not you are able to attend the EGM, please complete and return the enclosed form of proxy in accordance with the instructions printed thereon as soon as practicable and in any event not less than 48 hours before the time appointed for the holding of the EGM or any adjournment thereof, and return the same to Tricor Investor Services Limited at Level 22, Hopewell Centre 183 Queen's Road East Wanchai, Hong Kong. Completion and return of the form of proxy will not preclude you from attending and voting at the EGM or any adjournment thereof should you so desire.

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DEFINITIONS

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

“Assets”	includes, inter alia, the equipment and machineries owned by Boton for manufacturing the food flavors and fine fragrances as at the Latest Practicable Date;
“Board”	the board of Directors;
“Boton”	Shenzhen Boton Spice Company Limited* (深圳波頓香料有限公司), a wholly foreign-owned enterprise established in the PRC with limited liability and an indirect wholly-owned subsidiary of the Company;
“business days”	a day (other than a Saturday or Sunday or public holiday) on which banks are open for business in the PRC;
“Champion Sharp”	Champion Sharp International Investment Limited 盛冠國際投資有限公司, a company incorporated in Hong Kong with limited liability and the shareholding interest of which is held by Huan Qiu Capital and Cheerlog as to 90% and 10% respectively;
“Cheerlog”	Cheerlog International Limited, a company incorporated in the British Virgin Islands, the entire shareholding interest of which is owned by Mr. Wang;
“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 and the shares of which are listed on the Stock Exchange (stock code: 3318);
“Completion”	the completion of the JV Agreement;
“connected person”	has the meaning ascribed to it under the Listing Rules;
“Director(s)”	directors (including independent non-executive directors) of the Company;
“EGM”	an extraordinary general meeting of the Company to be convened for the purpose of, among other things, approving the JV Agreement and the Loan Agreement;
“Enlarged Group”	the Group and the JV Company;

DEFINITIONS

“Factory”	the factory to be constructed on the Land by the JV Company for the purpose of carrying out the manufacturing business of food flavors and fine fragrances;
“Formation of JV”	the proposed arrangement between Boton and Champion Sharp in relation to the equity interest of the JV Company pursuant to the terms and conditions of the JV Agreement;
“Group”	the Company and its subsidiaries;
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong;
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC;
“Huan Qiu Capital”	Huan Qiu Capital Investments Limited 環球資本投資有限公司, a company incorporated in the British Virgin Islands, the entire shareholding interest of which is owned by Mr. Wang;
“Independent Board Committee”	a committee of the Board comprising all the three independent non-executive Directors, namely Mr. Leung Wai Man Roger, Mr. Ng Kwun Wan and Mr. Zhou Xiao Xiong established for the purpose of giving recommendation to the Independent Shareholders regarding the JV Agreement, the Loan Agreement and the transactions contemplated thereunder;
“Independent Financial Adviser”	Nuada Limited, a company incorporated in Hong Kong with limited liability and a corporation licensed to carry out Type 6 (advising on corporate finance) regulated activity under the SFO, being the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders as to the fairness and reasonableness of the terms of the JV Agreement and the Loan Agreement;
“Independent Shareholders”	Shareholders other than Mr. Wang and Creative China Limited and their respective associates;
“JV Agreement”	the agreement dated 6 November 2014 entered into between Boton, Champion Sharp and the JV Company (as amended by the Supplemental JV Agreement) in relation to, inter alia, the increase of registered capital of the JV Company and the contribution to the registered capital of the JV Company by Boton;

DEFINITIONS

“JV Company”	Dongguan Tian Cheng Fragrances and Technology Company Limited* (東莞天成香料科技有限公司), a wholly foreign owned enterprise established under the laws of the PRC with limited liability and the entire equity interest of which is owned by Champion Sharp as at the Latest Practicable Date;
“Land”	the land parcel numbered 441916005002GB02022 situated in Dongguan City, Guangdong Province, the PRC;
“Latest Practicable Date”	1 December 2014, being the latest practicable date prior to the printing of this circular for the purpose of ascertaining certain information contained herein;
“Lease Agreement”	the lease agreement dated 6 November 2014 entered into between Boton (as landlord) and the JV Company (as tenant) in respect of the lease of the premises located at Le Li Road, Nanshan District (南山區樂麗路), Shenzhen, the PRC;
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange;
“Loan”	the loan in the amount of RMB30 million (equivalent to approximately HK\$37,974,684) to be advanced by Boton to the JV Company for the construction of the Factory and the general working capital of the JV Company;
“Loan Agreement”	the loan agreement dated 6 November 2014 entered into between Boton (as lender) and the JV Company (as borrower) in respect of Boton making available the Loan to the JV Company;
“Mr. Wang”	Mr. Wang Ming Fan, the Chairman, an executive Director and a substantial shareholder of the Company;
“PRC”	the People’s Republic of China;
“PRC Legal Advisers”	Zhong Lun Law Firm;
“RMB”	Renminbi, the lawful currency of the PRC;
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong);
“Share(s)”	ordinary share(s) of HK\$0.10 each in the share capital of the Company;

DEFINITIONS

“Shareholder(s)”	holder(s) of the Shares;
“Stock Exchange”	The Stock Exchange of Hong Kong Limited;
“substantial shareholder”	has the meaning ascribed to it under the Listing Rules;
“Supplemental JV Agreement”	the supplemental agreement to the JV Agreement dated 19 November 2014 in relation to the amendment of a condition precedent of the JV Agreement;
“Trademark Licence Agreement”	the trademark licence agreement dated 6 November 2014 entered into between Boton (as licensor) and the JV Company (as licensee) in respect of the use of the trademark “BOTON” which is registered and owned by Boton in the PRC;
“Valuer”	BMI Appraisals Limited, an independent property valuer; and
“%”	per cent.

For the purpose of illustration only and unless otherwise stated, conversion of RMB into Hong Kong dollars in this circular is based on the exchange rate of HK\$1 to RMB0.79. Such conversion should not be construed as a representation that any amount has been, could have been, or may be, exchanged at this or any other rate.

** For identification purpose only. The English names are only translations of the official Chinese names. In case of inconsistency, the Chinese names prevail.*



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)

Executive directors:

Mr. Wang Ming Fan (*Chairman*)
Mr. Li Qing Long
Mr. Qian Wu

Registered office:

Century Yard
Cricket Square
Hutchins Drive
P. O. Box 2681 GT
George Town
Grand Cayman
British West Indies

Independent non-executive directors:

Mr. Leung Wai Man, Roger
Mr. Ng Kwun Wan
Mr. Zhou Xiao Xiong

*Head office and principal place of
business in Hong Kong:*

Room 2101-02, 21st Floor
Wing On House
71 Des Voeux Road Central
Central
Hong Kong

4 December 2014

To the Shareholders

Dear Sir or Madam,

**(1) DISCLOSEABLE AND CONNECTED TRANSACTION
FORMATION OF JOINT VENTURE**
**(2) DISCLOSEABLE AND CONNECTED TRANSACTION
FINANCIAL ASSISTANCE**
AND
(3) NOTICE OF EGM

INTRODUCTION

Reference is made to the announcements of the Company dated 6 November 2014 and 19 November 2014 in relation to, inter alia, the Formation of JV and the Loan.

The purpose of this circular is (i) to provide the Shareholders with further information on the JV Agreement, the Loan Agreement and the transactions contemplated thereunder; (ii) to set out the recommendation from the Independent Board Committee in relation to the JV Agreement, the Loan

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Agreement and the transactions contemplated thereunder; (iii) to set out the letter from the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders, in respect of the reasonableness and fairness of the terms and conditions of the JV Agreement and the Loan Agreement; and (iv) to give the Shareholders a notice of the EGM and other information in accordance with the requirements of the Listing Rules.

THE JV AGREEMENT

Date 6 November 2014

Parties

- (a) Boton, an indirect wholly-owned subsidiary of the Company
- (b) Champion Sharp, a connected person of the Company
- (c) JV Company

As at the Latest Practicable Date, the entire shareholding interest of Champion Sharp and the entire equity interest of the JV Company are beneficially owned by Mr. Wang (who is the chairman, an executive Director and a substantial shareholder of the Company). Mr. Wang is the sole shareholder of Huan Qiu Capital and Cheerlog. Huan Qiu Capital and Cheerlog respectively hold 90% and 10% shareholding interest of Champion Sharp, which in turn owns the entire equity interest of the JV Company.

Formation of JV

Upon Completion, the equity interest of the JV Company will be owned as to 53% by Boton and as to 47% by Champion Sharp.

Registered Capital and Capital Contribution

As at the Latest Practicable Date, the registered capital of the JV Company is RMB80 million (equivalent to approximately HK\$101,265,823) and only RMB40 million (equivalent to approximately HK\$50,632,911) has been paid up by Champion Sharp. The paid up amount will be used for the acquisition of the land use right of the Land.

Pursuant to the JV Agreement, the JV Company will increase its registered capital from RMB80 million (equivalent to approximately HK\$101,265,823) to RMB85 million (equivalent to approximately HK\$107,594,937) and Boton shall contribute to the registered capital of the JV Company in the amount of RMB45 million (equivalent to approximately HK\$56,962,025). The amount of contribution to the registered capital of the JV Company was arrived at after arm's length negotiations between Boton and Champion Sharp after taking into account the funding needs of the JV Company.

Boton shall contribute to the registered capital of the JV Company in the amount of RMB45 million (equivalent to approximately HK\$56,962,025) in kind by way of transferring the Assets into the JV Company. According to the valuation report as set out in Appendix II of this circular prepared by Shenzhen Guosong Assets Appraisal Co. Ltd, an independent valuer in the PRC,

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having adopted the cost approach, the Assets were valued at approximately RMB45 million (equivalent to approximately HK\$56,962,025) as at 31 October 2014. The Assets consist of, inter alia, equipment and machineries for the manufacturing of food flavors and fine fragrances.

Conditions Precedent

Completion of the JV Agreement is conditional upon the following conditions being fulfilled:

- (a) the JV Company and the relevant party having signed the sale and purchase agreement in respect of the land use right of the Land;
- (b) Boton being satisfied with the results of the due diligence review conducted on the JV Company;
- (c) all necessary consents and approvals required to be obtained in respect of the JV Agreement and the transactions contemplated thereunder having been obtained; and
- (d) the Company having obtained approval from the Independent Shareholders in relation to the JV Agreement and having complied with the relevant requirements of the Listing Rules of the Stock Exchange.

The above conditions are not waivable. As at the Latest Practicable Date, the above conditions have not been fulfilled. If the said conditions are not fulfilled on or before 31 March 2015 (or such later date as the parties may agree in writing), Boton is entitled to unilaterally terminate the JV Agreement.

Condition precedent (a) above originally required that the land use right in respect of the Land be obtained prior to Completion. However, the parties entered into the Supplemental JV Agreement to amend such condition to require the sale and purchase agreement in respect of the land use right of the Land be signed prior to Completion.

As advised by the PRC Legal Advisers, to obtain the land use right of the Land, certain procedures have to be done, namely the Land has to be made open for tender, the local government will sign sale and purchase agreement with the successful bidder, then the successful bidder will pay the consideration together with the relevant tax and duties. Finally, relevant registration will be applied for and the certificate of the land use right of the Land will be obtained.

As at the Latest Practicable Date, the local government has released an announcement on 26 November 2014 in relation to the tender of the Land. There is no guarantee that the JV Company can successfully bid the Land but the Directors consider that the JV Company is likely to win the bid in light of the tender terms and sign the sale and purchase agreement by 31 December 2014. As discussed above, the entering into of the sale and purchase agreement is a pre-requisite for obtaining the land use right of the Land and after which the registration procedures can be carried out to obtain the certificate of the land use right of the land. The registration is a mere procedural matter and the PRC Legal Advisers confirmed that there is no legal impediment for the JV Company to obtain the land use right of the land. As such, the Directors having considered the

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opinion of the PRC Legal Advisers, are of the view that the interest of the Company and its Shareholders have been safeguarded in that the land use right of the Land will be obtained by the JV Company notwithstanding the amendment of condition precedent (a) by the Supplemental JV Agreement. The amendment was to speed up the completion of the Formation of JV and construction of the Factory so that the parties can start preparing the design of the Factory immediately upon Completion. The design and relevant plans of the Factory have to be submitted to the relevant government department for approval which takes around 2 months and it is expected that the certificate of the land use right of the Land will be obtained in the first quarter of 2015. As such, the JV Company can commence the construction work of the Factory with the approved design and plans immediately after the land use right certificate is obtained.

Completion

Subject to the fulfillment of all conditions precedent above, Boton shall transfer the Assets to the JV Company and in any event not later than 31 March 2015 (or such other date as the parties may agree in writing).

Management of the JV Company

The board of directors of the JV Company shall comprise of 3 directors, 2 of whom shall be nominated by Boton and 1 shall be nominated by Champion Sharp. The chairman of the board of directors of the JV Company shall be appointed by Boton. The directors and the chairman of the board of directors of the JV Company shall be appointed for a term of 3 years.

As at the Latest Practicable Date, Mr. Wang is the sole director of the JV Company.

Profit Sharing

The profit of the JV Company shall be shared among Boton and Champion Sharp in accordance with the proportion of their respective equity interest in the JV Company.

FURTHER INFORMATION ON THE JV COMPANY

The JV Company was established on 18 April 2014 as a wholly foreign owned enterprise. The JV Company has obtained a business licence for a term of 20 years from 18 April 2014 to 18 April 2034 and the scope of business of the JV Company includes but not limited to the production and sale of flavors and fragrances, food additives, establishment of research and development institutions and research and development of new kinds of flavor. The JV Company has not yet commenced business as at the Latest Practicable Date.

The JV Company will pay the purchase price of RMB40 million (equivalent to approximately HK\$50,632,911) to acquire the land use right of the Land. The Land is located in an industrial area of Dongguan City and the site area of which is approximately 73,977 square meters. The Land is permitted for industrial use and the term of grant is 50 years. Mr. Wang has been in negotiation with the local government in respect of the Land since the third quarter of 2013. Mr. Wang intended to invest in the Land as his personal investment and had no intention to develop any

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business in competition with the Group. In light of the need for expansion of production capacity of the Group, Mr. Wang and the Company started to explore the opportunity to jointly develop the Land in early 2014. However, the revenue of the Group records a decrease in respect of the six months ended 30 June 2014, the negotiation between Mr. Wang and the Group was put on hold until the fourth quarter of 2014 when the parties revisited the matter in planning for the future development of the Group. The Group had conducted site visit of the Land and evaluated the feasibility of setting up a production base thereon before commencing the negotiation with Mr. Wang. As the Land was situated in a developed industrial area, the infrastructure and environmental impact for constructing the Factory has well been catered for.

Based on the valuation report issued by the Valuer as set out in Appendix I to this circular, the market value of the Land as at 30 September 2014 would be RMB55,500,000 (equivalent to approximately HK\$70,253,165) assuming all relevant title certificates have been obtained and the Land could be freely transferred in the market. As at the Latest Practicable Date, the JV Company has not obtained legal title to the Land and it is a condition precedent for Completion that the JV Company and the relevant party having signed the sale and purchase agreement in respect of the land use right of the Land.

Upon Completion, the Factory will be constructed on the Land. The estimated construction cost of the Factory amounted to approximately RMB20 million (equivalent to approximately HK\$25,316,456) and will be funded by the Loan. It is expected that the construction of the Factory will be completed by December 2015. By then, the Assets and the relevant staff will be relocated to the Factory and the Factory will commence production in early 2016. Meanwhile, pending the construction of the Factory, the JV Company has by the Lease Agreement rented from Boton production premises in Shenzhen which will be used to manufacture food flavors and fine fragrances with the Assets and staff transferred from Boton upon Completion.

As the JV Company was set up in April 2014, based on the management accounts of the JV Company prepared in accordance with generally accepted accounting principles in the PRC, the unaudited net asset of the JV Company as at the Latest Practicable Date was approximately RMB40 million (equivalent to approximately HK\$50,632,911), which represents the paid up registered capital of the JV Company.

Upon Completion, the JV Company will change from a wholly foreign owned enterprise to a sino-foreign equity joint venture and will become a non-wholly owned subsidiary of the Company. As Mr. Wang can control the exercise of more than 10% of voting power at the JV Company's general meeting, the JV Company will become a connected subsidiary under Rule 14A.16 of the Listing Rules.

INFORMATION ON CHAMPION SHARP

Champion Sharp is an investment holding company and the shareholding interest of which is legally owned as to 90% by Huan Qiu Capital and 10% by Cheerlog. The ultimate beneficial shareholder of Huan Qiu Capital and Cheerlog is Mr. Wang. Huan Qiu Capital and Cheerlog are also investment holding companies. As at the Latest Practicable Date, Champion Sharp is the sole

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shareholder of the JV Company and Champion Sharp has no other investment save as its interest in the JV Company. Mr. Wang is the sole director of each of Huan Qiu Capital, Cheerlog, Champion Sharp and the JV Company.

LISTING RULES IMPLICATIONS

As at the Latest Practicable Date, Mr. Wang is the sole beneficial owner of the JV Company, the interest of which is held through Mr. Wang's companies namely Huan Qiu Capital, Cheerlog and Champion Sharp. Also, Mr. Wang is the chairman, an executive Director and a substantial shareholder of the Company who is personally interested in approximately 7.86% of the issued share capital of the Company. In addition, Mr. Wang is also interested in approximately 41.19% of shareholding interest in Creative China Limited, which in turn is interested in approximately 51.62% of the issued share capital of the Company. As such, Champion Sharp is an associate of Mr. Wang and hence is a connected person of the Company and the Formation of JV constitutes a connected transaction of the Company.

As certain applicable percentage ratios for the Formation of JV under Rule 14.07 of the Listing Rules exceeds 5% but less than 25%, the Formation of JV constitutes a discloseable transaction for the Company under Chapter 14 the Listing Rules. In addition, as the applicable percentage ratios (other than the profits ratio) are less than 25% but the consideration is more than HK\$10 million, the Formation of JV also constitutes a non-exempt connected transaction for the Company under Chapter 14A of the Listing Rules. The Formation of JV is therefore subject to reporting, announcement and independent shareholders' approval requirements.

THE LOAN AGREEMENT

Date 6 November 2014

Parties (1) Lender: Boton
(2) Borrower: JV Company

Loan Amount

RMB30 million (equivalent to approximately HK\$37,974,684)

Advancement of Loan

Subject to Completion, Boton shall advance the Loan to the JV Company on 1 April 2015 (or such other date as the parties may agree).

The Loan is unsecured and the JV Company shall apply the Loan for the construction of the Factory on the Land with the Assets installed therein to manufacture food flavors and fine fragrances by the JV Company and for the general working capital of the JV Company.

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Interest

The interest of the Loan is calculated based on the prevailing lending interest rate published by the People's Bank of China on the date of advancement. For reference, the said prevailing interest rate as at the Latest Practicable Date was 6%.

In the event of early repayment of Loan, the amount of interest payable shall accrue from day to day and shall be calculated on the basis of the actual number of days utilized.

Term

24 months from the date of advancement of the Loan, subject to Completion. The term of the Loan may be extended upon expiry subject to agreement of the parties.

Repayment

The Loan and the interest accrued thereon shall be repaid on the expiry of the term of the Loan. The JV Company shall be entitled to early repay the full amount of the Loan and the interest accrued thereon by providing 1 month prior written notice to Boton.

Listing Rules Implications

The JV Company will become a connected subsidiary under Rule 14A.16 of the Listing Rules upon Completion, hence the Loan will constitute a financial assistance to a connected person under Chapter 14A of the Listing Rules. As the applicable percentage ratios (other than the profits ratio) exceed 5% but less than 25% and the consideration is more than HK\$10 million, the Loan constitutes a discloseable transaction under Chapter 14 of the Listing Rules and a non-exempt connected transaction for the Company under Chapter 14A of the Listing Rules and is therefore subject to reporting, announcement and independent shareholders' approval requirements.

REASONS FOR THE FORMATION OF JV AND THE LOAN

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 goods.

As at the Latest Practicable Date, Boton is principally engaged in the research and development, trading and manufacturing and selling of flavor enhancers, food flavors and fine fragrances. Manufacturing of the Group's products are conducted in the Group's production base in Shenzhen, the PRC. The average utilization rate of the production facilities in 2013 was approximately 55%, of which the utilization rate of the production facilities in respect of food flavors have reached approximately 76%. It was estimated that the average utilization rate would increase to over 60% in 2014 and further increase to over 80% by 2017. The said utilization rate was estimated with reference to the anticipated growth of the Group. The Group's turnover of food flavors increased by 1.9% and 16.9% for the year ended 2012 and 2013 respectively; whereas the

LETTER FROM THE BOARD

Group's turnover of fine fragrances increased by 25.3% and 23.8% for the year ended 2012 and 2013 respectively. Notwithstanding that the Group's overall turnover for the six months ended 30 June 2014 dropped approximately 8%, the turnover of fine fragrances maintained a 2.5% increment compared with the corresponding period last year. The Board is optimistic of the long term growth of its food flavors and fragrances businesses brought forth by the continuous urbanization in the PRC, the increase of income driving domestic consumption and the pursue of quality life and life style by its people. As such, the Group is in need of increasing its production capacity to meet the potential growth in demand.

In anticipation of the potential need for expansion, the Board has considered acquiring a new piece of land and setting up its own factory thereon or acquiring an existing factory for production. The Group has tried to look for a suitable factory or a new piece of land for such purpose but had difficulty in locating the same in Guangdong province, the PRC, with suitable size, developed infrastructure in the surrounding and suitable for the Group's industry of manufacturing flavors and fragrances. In terms of cost, the Board estimated that an additional cost of approximately RMB40 million (equivalent to approximately HK\$50,632,911) will be required if the Group was to establish its wholly-owned factory or acquiring an established factory instead of the Formation of JV. As at 30 June 2014, the Company recorded cash balance of RMB149 million (equivalent to approximately HK\$188,607,595) and such amount has been reserved for the construction of the office building and research building in Boton Science and Technology Park and the general working capital of the Group. The cost of construction for the buildings in the said Boton Science and Technology Park is estimated to be more than RMB149 million (equivalent to approximately HK\$188,607,595), and in such case the Company may consider obtaining additional funds through bank borrowing. As such, if the Group adopts the expansion plan by way of acquiring a new piece of land and setting up its own factory thereon or acquiring an existing factory, the Group will require substantial additional funds which represents high capital commitment and financial burden to the Group.

In light of the above reasons, the Board considers that it is in the best interest of the Group to expand the production capacity through the formation of the JV Company which involves less cost as compared with alternative expansion plans.

As contemplated under the JV Agreement, Boton will, upon Completion, focus on the flavor enhancers business and cease its business in relation to food flavors and fine fragrances. The JV Company will take up the business of food flavors and fine fragrances and carry out the same on the Land after the Factory is constructed thereon to manufacture food flavors and fine fragrances. The JV Agreement and the transaction contemplated thereunder will allow the Group to better utilize its existing production base in Shenzhen for its flavor enhancers business whereas the food flavors and fine fragrances business will be further developed in the Factory. The Loan Agreement will facilitate the construction of the Factory by the JV Company and the amount of the Loan will be funded by the internal resources of the Group.

LETTER FROM THE BOARD

Mr. Wang abstained from voting at the Company's board resolutions approving the JV Agreement and the Loan Agreement due to his material interest in the relevant transactions. Mr. Li Qing Long and Mr. Qian Wu also abstained from voting at the said Company's board resolutions because of their directorship in Creative China Limited and also their shareholding interest of 3.94% and 6.89% in Creative China Limited respectively.

INDEPENDENT BOARD COMMITTEE AND INDEPENDENT FINANCIAL ADVISER

The Independent Board Committee comprises Mr. Leung Wai Man Roger, Mr. Ng Kwun Wan, Mr. Zhou Xiao Xiong, all being the independent non-executive Directors. It has been established to advise the Independent Shareholders as to the fairness and reasonableness of the terms of the JV Agreement, the Loan Agreement and the transactions contemplated thereunder.

Nuada Limited has been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in respect of the terms of the JV Agreement, the Loan Agreement and the transactions contemplated thereunder.

EGM

A notice convening the EGM to be held on Friday , 19 December 2014 at 11:00 am at Pacific Room, Island Pacific Hotel, 152 Connaught Road West, Hong Kong is set out on pages EGM-1 to EGM-3 of this circular for the purpose of considering and, if thought fit, approve the JV Agreement, the Loan Agreement and the transactions contemplated thereunder.

A form of proxy for use at the EGM is enclosed with this circular. Whether or not you are able to attend the EGM, you are requested to complete the accompanying form of proxy in accordance with the instructions printed thereon and return the same to the Company's share registrar and transfer office, Tricor Investor Services Limited at Level 22, Hopewell Centre 183 Queen's Road East Wanchai, Hong Kong as soon as possible and in any event not less than 48 hours before the time appointed for holding the EGM or any adjournment thereof (as the case may be). Completion and return of the form of proxy will not preclude you from attending and voting in person at the meeting or any adjournment thereof (as the case may be) if you so wish.

In accordance with the Listing Rules and in view of the interests of Mr. Wang in the JV Agreement and the Loan Agreement, Mr. Wang and his associates will be required to abstain from voting in relation to JV Agreement and the Loan Agreement and the transactions contemplated thereunder at the EGM. To the best knowledge, information and belief of the Directors having made all reasonable enquiries, save and except Mr. Wang and Creative China Limited, no other Shareholder has a material interest in the JV Agreement and the Loan Agreement and the transactions contemplated thereunder, as such, no other Shareholder will be required to abstain from voting at the EGM.

Pursuant to Rule 13.39(4) of the Listing Rules, all votes of the Shareholders at general meetings must be taken by poll.

LETTER FROM THE BOARD

RECOMMENDATION

The Board considers that the JV Agreement and Loan Agreement were entered into after arm's length negotiation in the ordinary course of business of the Company and the terms of the JV Agreement, the Loan Agreement and the transactions contemplated thereunder are on normal commercial terms, which are fair and reasonable and in the interests of the Company and its Shareholders as a whole. Accordingly, the Directors recommend all the Independent Shareholders to vote in favour of the ordinary resolutions as set out in the notice of the EGM.

The Independent Board Committee, having taken into account the advice of Independent Financial Adviser, considers that the JV Agreement, the Loan Agreement and the transactions contemplated thereunder are entered into in the ordinary and usual course of business of the Company and the terms of the said agreements are fair and reasonable and on normal commercial terms so far as the Independent Shareholders are concerned and accordingly recommends the Independent Shareholders to vote in favour of the resolutions to be proposed at the EGM for approving, among other things, the JV Agreement, the Loan Agreement and the transactions contemplated thereunder.

GENERAL INFORMATION

Your attention is drawn to the letter of advice from Independent Financial Adviser set out on pages 18 to 33 of this circular which contains its advice to the Independent Board Committee and the Independent Shareholders in connection with the terms of the JV Agreement, the Loan Agreement and the transactions contemplated thereunder; and the letter from the Independent Board Committee set out on pages 16 to 17 of this circular which contains its recommendation to the Independent Shareholders in relation to the terms of the JV Agreement, the Loan Agreement and the transactions contemplated thereunder.

LETTER FROM THE BOARD

ADDITIONAL INFORMATION

Your attention is also drawn to the additional information set out in the appendices to this circular and the notice of the EGM.

Yours faithfully,
By Order of the Board
China Flavors and Fragrances Company Limited
Ma Man Wai
Company Secretary

LETTER FROM THE INDEPENDENT BOARD COMMITTEE

The following is the text of the letter from the Independent Board Committee setting out its recommendation to the Independent Shareholders in connection with the JV Agreement, the Loan Agreement and the transactions contemplated thereunder for inclusion in this circular.



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)

4 December 2014

To the Independent Shareholders

Dear Sir or Madam,

**(1) DISCLOSEABLE AND CONNECTED TRANSACTION
FORMATION OF JOINT VENTURE**
**(2) DISCLOSEABLE AND CONNECTED TRANSACTION
FINANCIAL ASSISTANCE**

In compliance with the Listing Rules, we have been appointed to form the Independent Board Committee to consider and advise the Independent Shareholders as to whether, in our opinion, the JV Agreement, the Loan Agreement and the transactions contemplated thereunder, details of which are set out in the circular issued by the Company to the Shareholders dated 4 December 2014 (the “**Circular**”), of which this letter forms part, were entered into in the ordinary and usual course of business of the Company, the terms of the said agreements were fair and reasonable and on normal commercial terms and in the interest of the Company and the Independent Shareholders as a whole. Terms defined in the Circular will have the same meanings when used herein unless the context otherwise requires. Nuada Limited has been appointed as the independent financial adviser to the Independent Board Committee and the Independent Shareholders in this matter.

We wish to draw the attention of the Independent Shareholders to the letter from the Board and letter of advice from Nuada Limited, the Independent Financial Adviser, set out on pages 5 to 15 and pages 18 to 33 of the Circular, respectively.

Having taken into account (i) the reasons as disclosed in the paragraph headed “Reasons for the Formation of JV and the Loan” in the “Letter from the Board” of the Circular; (ii) the principal factors and reasons considered by Nuada Limited, and its conclusion and advice; and (iii) the facts that the Formation of JV is an expansion of the Group’s existing business and production capacity and the Loan is a transaction contemplated under incidental to the JV Agreement, we are of the view and concur with the opinion of Nuada Limited that the JV Agreement, the Loan Agreement and the transactions contemplated thereunder were entered into in the ordinary and usual course of

LETTER FROM THE INDEPENDENT BOARD COMMITTEE

business of the Company, the terms of the said agreements were fair and reasonable and on normal commercial terms and in the interests of the Company and the Independent Shareholders as a whole.

Accordingly, we recommend the Independent Shareholders to vote in favour of the ordinary resolution to be proposed at the EGM to approve the JV Agreement, the Loan Agreement and the transactions contemplated thereunder.

Yours faithfully,

For and on behalf of the Independent Board Committee

Mr. Leung Wai Man, Roger Mr. Ng Kwun Wan Mr. Zhou Xiao Xiong

Independent non-executive Directors

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Set out below is the text of a letter received from Nuada Limited, the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders regarding the JV Agreement and the Loan Agreement for the purpose of inclusion in this circular.

Nuada Limited
Corporate Finance Advisory

Unit 1805-08, 18/F
OfficePlus @Sheung Wan
93-103 Wing Lok Street
Sheung Wan, Hong Kong
香港上環永樂街93-103號
協成行上環中心18樓1805-08室

4 December 2014

*To the Independent Board Committee and the Independent Shareholders of
China Flavors and Fragrances Company Limited*

Dear Sirs,

**DISCLOSEABLE AND CONNECTED TRANSACTION
FORMATION OF JOINT VENTURE
AND
DISCLOSEABLE AND CONNECTED TRANSACTION
FINANCIAL ASSISTANCE**

INTRODUCTION

We refer to our engagement as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in respect of the JV Agreement, details of which are set out in the letter from the Board (the “**Letter from the Board**”) contained in the circular of the Company to the Shareholders dated 4 December 2014 (the “**Circular**”), of which this letter forms part. Capitalised terms used in this letter shall have the same meanings ascribed to them in the Circular unless the context otherwise requires.

On 6 November 2014, Boton (an indirect wholly-owned subsidiary of the Company), Champion Sharp (a connected person of the Company) and the JV Company entered into the JV Agreement, pursuant to which the JV Company will increase its registered capital from RMB80 million (equivalent to approximately HK\$101.3 million) to RMB85 million (equivalent to approximately HK\$107.6 million) and Boton shall contribute RMB45 million (equivalent to approximately HK\$57.0 million) to the registered capital of the JV Company in kind by transferring the Assets to the JV Company. As at the Latest Practicable Date, the JV Company is a wholly foreign owned enterprise and the entire equity interests of which is owned by Champion Sharp. Upon Completion, Boton and Champion Sharp will hold approximately 53% and 47% of the registered capital of the JV Company respectively and the JV Company will become a sino-foreign equity joint venture and a non-wholly owned subsidiary of the Company. As Mr. Wang can control the exercise of more than 10% of voting power at the JV Company’s general meeting, the JV Company will become a connected subsidiary under Rule 14A.16 of the Listing Rules.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

As at the Latest Practicable Date, Mr. Wang is the sole beneficial owner of the JV Company, the interests of which is held through Mr. Wang's companies namely Huan Qiu Capital, Cheerlog and Champion Sharp. Also, Mr. Wang is the chairman, an executive Director and a substantial shareholder of the Company who is personally interested in approximately 7.86% of the issued share capital of the Company. In addition, Mr. Wang is also interested in approximately 41.19% of shareholding interests in Creative China Limited, which in turn is interested in approximately 51.62% of the issued share capital of the Company. As such, Champion Sharp is an associate of Mr. Wang and hence is a connected person of the Company and the Formation of JV constitutes a connected transaction of the Company.

As certain applicable percentage ratios for the Formation of JV under Rule 14.07 of the Listing Rules exceeds 5% but less than 25%, the Formation of JV constitutes a discloseable transaction for the Company under Chapter 14 of the Listing Rules. In addition, as the applicable percentage ratios (other than the profits ratio) are less than 25% but the consideration is more than HK\$10 million, the Formation of JV also constitutes a non-exempt connected transaction for the Company under Chapter 14A of the Listing Rules. The Formation of JV is therefore subject to the reporting, announcement and Independent Shareholders' approval requirements.

On or before Completion, the JV Company and the relevant party would have signed the sale and purchase agreement in respect of the land use right of the Land in Dongguan City, the PRC and the JV Company shall construct the Factory thereon. As part of the transactions contemplated under the JV Agreement, Boton (as lender) and the JV Company (as borrower) entered into the Loan Agreement on 6 November 2014 whereby Boton shall, subject to Completion, advance a loan of RMB30 million (equivalent to approximately HK\$40.0 million) to the JV Company on 1 April 2015 (or such other date as the parties may agree) for the construction of the Factory.

The JV Company will become a connected subsidiary under Rule 14A.16 of the Listing Rules upon Completion, hence the Loan will constitute financial assistance to connected person under Chapter 14A of the Listing Rules. As the applicable percentage ratios (other than the profits ratio) exceed 5% but less than 25% and the consideration is more than HK\$10 million, the Loan constitutes a discloseable transaction under Chapter 14 of the Listing Rules and a non-exempt connected transaction for the Company under Chapter 14A of the Listing Rules and is therefore subject to the reporting, announcement and Independent Shareholders' approval requirements.

In accordance with the Listing Rules and in view of the interests of Mr. Wang in the JV Agreement and the Loan Agreement, Mr. Wang and his associates will be required to abstain from voting in relation to the resolutions of JV Agreement and the Loan Agreement and the transactions contemplated thereunder at the EGM. To the best knowledge, information and belief of the Directors having made all reasonable enquiries, save and except Mr. Wang and Creative China Limited, no other Shareholder has a material interests in the JV Agreement and the Loan Agreement and the transactions contemplated thereunder, as such, no other Shareholders will be required to abstain from voting at the EGM.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

An Independent Board Committee, comprising Mr. Leung Wai Man Roger, Mr. Ng Kwun Wan, Mr. Zhou Xiao Xiong, all being the independent non-executive Directors, has been established to advise the Independent Shareholders so to the fairness and reasonableness of the terms of the JV Agreement and the Loan Agreement and the transactions contemplated thereunder. We, Nuada Limited, have been appointed to advise the Independent Board Committee and the Independent Shareholders in this regard.

BASIS OF OUR OPINION

In formulating our opinion and recommendation, we have relied on the information and representations supplied, and the opinion expressed, by the Directors and management of the Company. We have assumed that such information and statements, and representations made to us or referred to in the Circular are true, accurate and complete in all material respects as of the Latest Practicable Date and continue to be so as at the date of the EGM.

We have also assumed that all statements of belief, opinion and intention made by the Company or the Directors in the Circular were reasonably made after due enquiry. We have no reason to suspect that any material facts or information have been omitted or withheld from the information contained or opinions expressed in the Circular or to doubt the truth, accuracy and completeness of the information and representations provided by the management of the Company or the Directors. The Directors collectively and individually accept full responsibility for the accuracy of the information in the Circular and confirm, having made all reasonable enquires, that to the best of their knowledge and belief, opinions expressed in the Circular have been arrived at after due and careful consideration and no other facts have been omitted that would make any statements in the Circular misleading.

We relied on the Company that it has provided us sufficient information to reach an informed view and to provide a reasonable basis for our opinions. We have not, however, carried out any independent verification of the information provided by the Company, the Directors and the management of the Company, nor have we conducted an independent investigation into the business and affairs, financial condition and future prospects of the Company. Furthermore, we have not considered the taxation implication on the Company or the Shareholders as a result of the entering into the JV Agreement and the Loan Agreement and the transactions contemplated thereunder.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

PRINCIPAL FACTORS AND REASONS CONSIDERED

In arriving at our opinion regarding the JV Agreement and the Loan Agreement, we have considered the following principal factors and reasons:

1. The JV Agreement

i. *Principal terms of the JV Agreement*

On 6 November 2014, Boton, an indirect wholly-owned subsidiary of the Company, Champion Sharp, a connected person of the Company and the JV Company entered into the JV Agreement, pursuant to which, all of the parties have agreed to establish the JV Company to engage in business of food flavors and fine fragrances.

As part of the transactions contemplated under the JV agreement, Boton and the JV Company entered into the Lease Agreement, the Loan Agreement and the Trademark License Agreement. Pursuant to the said agreements, Boton shall for a term of 2 years commencing from 1 April 2015 (or such other date as the parties may agree), subject to Completion, (i) lease the production premises located at Le Li Road, Nanshan District (南山區樂麗路), Shenzhen, the PRC (the “**Production Premises**”) to the JV Company for carrying out the food flavors and fine fragrances manufacturing business; (ii) advance a loan of RMB30 million (equivalent to approximately HK\$40.0 million) to the JV Company for constructing the Factory; and (iii) grant the JV Company the right to use the trademark “BOTON”, which is registered and owned by Boton in the PRC (the “**Trademark**”) in connection with the business of the JV Company within the area that the JV Company can use the Trademark, namely in relation to beverage flavors, spice perfume oils, fragrances, confectionery fragrances, liquor fragrances, natural fragrance raw materials, industrial fragrances, cosmetics fragrances and soap fragrances.

Regarding the lease of the Production Premises by the JV Company from Boton pursuant to the terms of the Lease Agreement, as all the applicable percentage ratios (other than the profits ratio) are less than 5% and the total consideration is less than HK\$3 million, the Lease Agreement is fully exempted from the reporting, announcement and Independent Shareholders’ approval requirements under Chapter 14A of the Listing Rules.

Regarding the right to use the Trademark to be granted by Boton to the JV Company pursuant to the terms of the trademark license agreement, as all the applicable percentage ratios (other than the profits ratio) are less than 0.1%, it is fully exempted from the reporting, announcement and Independent Shareholders’ approval requirements under Chapter 14A of the Listing Rules.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Formation of JV

Upon Completion, the equity interests of the JV Company will be owned as to 53% by Boton and as to 47% by Champion Sharp.

Registered Capital and Capital Contribution

As at the Latest Practicable Date, the registered capital of the JV Company is RMB80 million (equivalent to approximately HK\$101.3 million) and only RMB40 million (equivalent to approximately HK\$50.6 million) has been paid up by Champion Sharp. According to the Letter from the Board, the paid up amount will be used for the acquisition of the land use right of the Land.

Pursuant to the JV Agreement, the JV Company will increase its registered capital from RMB80 million (equivalent to approximately HK\$101.3 million) to RMB85 million (equivalent to approximately HK\$107.6 million) and Boton shall contribute to the registered capital of the JV Company in the amount of RMB45 million (equivalent to approximately HK\$57.0 million).

According to the JV Agreement, Boton shall contribute to the registered capital of the JV Company in the amount of RMB45 million (equivalent to approximately HK\$57.0 million) by way of transferring the Assets into the JV Company. The Assets, of net book value of RMB45 million (equivalent to approximately HK\$57.0 million) as at the Last Practicable Date, consist of, *inter alia*, machineries for the manufacturing of food flavors and fine fragrances.

As stated in the Letter from the Board, the Company engaged an independent valuer, Shenzhen Guosong Assets Appraisal Co. Ltd, in the PRC (the “**PRC Valuer**”) to evaluate the value of the Assets and the Assets were valued at approximately RMB45 million (equivalent to approximately HK\$57.0 million) as at 31 October 2014. According to the valuation report prepared by the PRC Valuer (the “**Assets Valuation Report**”) and after discussion with the PRC Valuer, we noted that the Assets Valuation Report is based on Assets Valuation Standards — Basic Standards 《資產評估準則 — 基本準則》 published by the China Appraisal Society (中國資產評估協會) and the PRC Valuer is a member of the aforesaid society. According to the website of the China Appraisal Society, we noted that the aforesaid society is a national organization which is under the regulation by Ministry of Finance of the People’s Republic of China (中華人民共和國財政部) and Ministry of Civil Affairs of the People’s Republic of China (中華人民共和國民政部). It is stated in the Assets Valuation Report that the PRC Valuer had considered three general accepted valuation methods, i.e. replacement cost method, income method and market method. The PRC Valuer has adopted the replacement cost method as there are very few similar machineries or production lines in the market which are actively traded as the type of the production lines, i.e. for manufacturing of food flavors and fine fragrances is special and therefore

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

insufficient comparable transactions could be referenced to form a reliable basis for the opinion of the PRC Valuer and the income of a single unit of equipment cannot be confirmed. The PRC Valuer have therefore relied solely on the replacement cost method in the valuation of the Assets. The replacement cost method is a method, in which the value of the asset appraised is determined by deducting various impairment losses from the current replacement cost of the asset appraised in brand new conditions.

During the course of valuation, the PRC Valuer obtained the current purchase price of equipment through market quotation and making reference to the relevant price information based on the model and specifications of the equipment, while also taking into consideration the equipment freight and miscellaneous charges, installation and debugging charges to arrive at the replacement full price of equipment. Equipment newness rate was determined comprehensively through service life approach and survey scoring approach after conducting on-site inspection, making reference to the current, operational and maintenance conditions of the equipment, taking full consideration of factors including the design, manufacturing, usage intensity and maintenance conditions of the equipment and analyzing the influences of substantive, functional and economic depreciation. Please refer to paragraph headed “(2) The Valuation Method of this Valuation” in Appendix II of this circular for detail information.

After discussion with the PRC Valuer regarding the aforesaid valuation methodology, we noted that the valuation performed by the PRC Valuer are fair and reasonable and the value of the Assets is fair.

Since the dollar amount that shall be contributed by Boton is calculated according to the percentage interests of its shareholding in the JV Company, i.e. 53% equity interests of JV Company, we are of the view that the dollar value of the contribution by Boton i.e. RMB45 million, by way of transferring the Assets, in the Formation of JV is fair and reasonable.

According to the valuation report prepared by the Valuer regarding the value of the Land (the “**Valuation Report**”), we noted that the Valuer has attributed no commercial value to the Land as the relevant certificates have not been obtained and the value of the Land is amounted to approximately RMB55.5 million assuming all relevant title certificates have been obtained and the Land could be freely transferred in the market. Based on the dollar value that Champion Sharp has been paid up according to the JV Agreement, i.e. RMB40 million, the value of the Land represents a premium of approximately 37.5% to the dollar value of the paid up amount from Champion Sharp.

We have studied the Valuation Report and discussed with the Valuer regarding the methodologies and assumptions of the Valuation Report and noted that the aforesaid report is based on comparison approach, assuming sale in its existing state

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

with the benefit of vacant possession and by making reference to comparable sales evidence as available in the market. We have studied the comparable sales evidences provided by the Valuer and noted that the aforesaid sales evidences are all sales transactions located in Dongguan and completed within 11 months from the date of the JV Agreement. We also noted that the aforesaid valuation report and the general accepted valuation procedures have been made and performed respectively in accordance with The HKIS Valuation Standards (2012 Edition) published by The Hong Kong Institute of Surveyors and are in compliance with the requirements contained in Chapter 5 and Practice Note 12 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

After discussing with the Valuer, we noted that Ms. Joannau W.F. Chan is a member of The Hong Kong Institute of Surveyors (General Practice) and she has over 15 years experience in valuations of properties in the PRC.

We asked the Company to provide the engagement letter with the Valuer to review the term of engagement. Based on the aforesaid engagement letter and our discussion with the Valuer in relation to their terms of engagement, in particular, their scope of work, we noted that as there is no limitation on the scope of work which might adversely impact on the degree of assurance given by them in their report, we consider that their scope of work is appropriate to the opinion required to be given.

According to the Valuer, the market value of the Land would be RMB55.5 million as at the date of valuation assuming all relevant title certificate have been obtained. The reason why the Valuer has attributed no commercial value to the Land is that the relevant title certificate have not been obtained as at the date of valuation. We are of the view that since the signing of the sale and purchase agreement by the JV Company and the relevant government authorities can sufficiently safeguard the interests of the Company and the Shareholders as a whole according to the opinion of Zhong Lun Law Firm, the Company's PRC legal adviser (the "**PRC Legal Adviser**") (the "**Legal Opinion**"), details of which would be discussed in the next section, the JV Agreement is conditional upon the JV Company and the relevant parties having signed the sale and purchase agreement in respect of the land use right of the Land, we consider that as the aforementioned condition would ensure the value of the land amounting to approximately RMB55.5 million as valued by the Valuer, the value of the Land is fair and reasonable.

Based on the above, we are of the view that the value stated in the Valuation Report is fair.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Conditions Precedent

Completion of the JV Agreement is conditional upon (a) the JV Company and the relevant party having signed the sale and purchase agreement in respect of the land use right of the Land; (b) Boton being satisfied with the results of the due diligence review conducted on the JV Company; (c) all necessary consents and approvals required to be obtained in respect of the JV Agreement and the transactions contemplated thereby having been obtained; and (d) the Company having obtained approval from the Independent Shareholders in relation to the JV Agreement and having complied with the relevant requirements of the Listing Rules of the Stock Exchange. The above conditions are not waivable. According to the Letter from the Board, as at the Latest Practicable Date, the above conditions have not been fulfilled. If the said conditions are not fulfilled on or before 31 March 2015 (or such later date as the parties may agree in writing), Boton is entitled to unilaterally terminate the JV Agreement.

On 19 November 2014, Boton, Champion Sharp and the JV Company have entered into the Supplemental JV Agreement to revise one of the conditions precedent from the JV Company having obtained the certificate for the land use right of the Land to the sale and purchase agreement in respect of the land use right of the Land having been signed by the relevant parties. According to the Letter from the Board and the Legal Opinion, the entering into of the aforesaid sale and purchase agreement is a pre-requisite for obtaining the land use right of the Land and after which the registration procedures can be carried out to obtain the certificate of the land use right. The registration is a mere procedural matter and there are no legal impediments for the JV Company to obtain the State-owned Land Use Rights Certificate of the property upon successfully acquiring the property through tender, auction or listing, signing the land grant contract and settling the land premium in full and the relevant tax of the property in accordance with the land grant contract.

As stated in the Letter from the Board and as advised by the PRC Legal Adviser, to obtain the land use right of the Land, certain procedures have to be done, namely the Land has to be made open for tender, the local government will sign sale and purchase agreement with the successful bidder, then the successful bidder will pay the consideration together with the relevant tax and duties. Finally, relevant registration will be applied for and the certificate of the land use right of the Land will be obtained.

The local government has released an announcement on 26 November 2014 in relation to the tender of the Land. And the closing time of the tender is on 31 December 2014. There is no guarantee that the JV Company can successfully bid the Land but the Directors consider that the JV Company is likely to win the bid in light of the tender terms (as the usage of the Land is restricted to the manufacture

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of flavors and fine fragrances which is the same business of the JV Company) and will sign the sale and purchase agreement by 31 December 2014, i.e. on the same day of the close of the tender. As stated in the Letter from the Board and according to the management of the Company, we understand that the aforesaid amendment of condition precedent would speed up the time for the Completion of the Formation of JV notwithstanding the amendment of condition precedent (a) by the Supplemental JV Agreement. The amendment was to speed up the time for the Completion of the Formation of JV and construction of the Factory so that the parties can start preparing the design of the Factory immediately upon Completion. The design and relevant plans of the Factory have to be submitted to the relevant government department for approval which would take around two months and it is expected that the certificate of the land use right will be obtained in the first quarter of 2015. As such, the JV Company can commence the construction work of the Factory with the approved design and other plans immediately after the land use right certificate is obtained.

In addition, after discussion with the management of the Company, we understand that as (i) the Formation of JV can diversify the financial burden of the Group in setting up the new production lines; (ii) the Land is suitable for the establishment of the new production lines; and (iii) the dollar value of the Land (the market value is RMB55.5 million according to the Valuation Report) is higher than the dollar value of capital injection required by Champion Sharp according to the JV Agreement, speeding up the time for the Completion of the JV Agreement is in the interests of the Company. We understand that the signing of the sale and purchase agreement in respect of the land use right of the Land would still ensure the JV Company obtaining the land use right of the Land and is legally enforceable according to the Legal Opinion as stated above. As such, we are of the view and concur with the view of Directors that the Supplemental JV Agreement can remain safeguard the interests of the Company and the Shareholders regarding the land use right of the Land.

We are of the view that the aforesaid conditions precedent can safeguard the interests of the Company and the Shareholders.

Management of the JV Company

The board of directors of the JV Company shall comprise 3 directors, 2 of whom shall be nominated by Boton and the remaining 1 shall be nominated by Champion Sharp. The chairman of the board of directors of the JV Company shall be appointed by Boton. The directors and the chairman of the board of the JV Company shall be appointed for a term of 3 years. We are of the view that since Boton is the largest shareholder of the JV Company, the aforesaid composition of Board can fully reflect the controlling power of Boton in the management of the JV Company.

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Profit Sharing

The profit of the JV Company shall be shared among Boton and Champion Sharp in accordance with the proportion of their respective equity interests in the JV Company and according to the management of the Company, the distribution of the aforesaid profit would be in the way of dividend payment to the shareholders of the JV Company and the right of decision making regarding the dividend payment is under the board of directors of the JV Company which is controlled by Boton. Based on the above, we are of the view that the term of profit sharing is in the interests of the Company and the Shareholders as a whole.

For further details of the JV Agreement, please refer to the section headed “The JV Agreement” in the Letter from the Board.

Taken into account (i) JV Company and the relevant parties having signed the sale and purchase agreement in respect of the land use right of the Land can remain safeguard the interests of the Company and the Shareholders; (ii) Boton being satisfied with the results of the due diligence review conducted on the JV Company; (iii) the board of directors of the JV Company would be under control by Boton; and (iv) the profit of the JV Company shall be shared among Boton and Champion Sharp in accordance with the proportion of their equity interests in the JV Company, we are of the view that these terms of the JV Agreement could secure the Company’s control over the JV Company, safeguard the interests of the Company and are favorable to the Company as well as the interests of the Independent Shareholders.

ii. *Reasons for the Formation of JV*

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 customer goods.

According to the Letter from the Board, as at the Latest Practicable Date, Boton is principally engaged in the research and development, trading and manufacturing and selling of flavor enhancers, food flavors and fine fragrances. Manufacturing of the Group’s products are conducted in the Group’s production base located at Nanshan Shuguang Cang Chu Qu Zong Di, Shengzhen (the “**Nanshan Plant**”), the PRC. Upon Completion, Boton will focus on the flavor enhancers business and cease its business in relation to food flavors and fine fragrances. The JV Company will take up the business of food flavors and fine fragrances and carry out the same on the Land after the Factory is constructed.

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According to the Company's interim report 2014 (the "Interim Report 2014"), the turnover of flavors enhancers recorded an increase of approximately 8.8% from approximately RMB182.0 million for the six months period ended 30 June 2013 to approximately RMB198.1 million for the corresponding period in 2014, which was attributable to the Company's adoption of different pricing strategies on different products. As further stated in the Interim Report 2014, due to the pressure exerted on food and dining industry from the practice of frugality promulgated by the PRC government since 2013, the turnover of food flavors dropped from approximately RMB78.1 million for the six months period ended 30 June 2013 to approximately RMB75.4 million for the corresponding period in 2014, representing a decrease of approximately 3.5%. On the other hand, the turnover of fine fragrances increased slightly of approximately 2.5% from approximately RMB59.7 million for the six months period ended 30 June 2013 to approximately RMB61.2 million for the corresponding period in 2014. As disclosed in the Interim Report 2014, the increase was attributable to higher selling prices of the Group's fine fragrances products based on its excellent quality and market demand.

According to the management of the Company and as stated in the Interim Report 2014, the Group's production capacity has been running high to meet customers' demand. For long term planning of future business expansion, the Group would consider adding or branching out production base for further business development.

According to the management of the Company, all of the Group's products are manufactured in the Nanshan Plant and there is no space for further expansion of the Group's production lines. We have conducted a site visit of Nanshan Plant, and noted that, there is no space for expansion of the product lines given the areas of the existing production plant and areas consumed by the existing production lines. Based on the above, we are of the view and concur with the view of the Directors that for long term planning of future business expansion, the Group would consider adding or branching out production base for next stage of business development.

According to the management of the Company, there would be emission of bad/peculiar smell during the production process of the food flavors and fine fragrances. Although the emission of the aforesaid bad/peculiar smell do not breach the relevant laws of the PRC, such as (i) the Law of the People's Republic of China on the Prevention and Control of Atmospheric Pollution (中華人民共和國大氣污染防治法); (ii) Rules for Implementation of the Law of the People's Republic of China on the Prevention and Control of Water Pollution (中華人民共和國水污染防治法實施細則); (iii) Regulations of Guangdong Province on Environmental Protection (廣東省環境保護條例); (iv) Regulations of the Shenzhen Special Economic Zone on Environmental Protection (深圳經濟特區環境保護條例); and (v) Guangdong Province Pollutant Discharge Permit (廣東省排污許可證管理辦法) and the Group obtained the Guangdong Province Pollutant Discharge Permit (廣東省污染物排放許可證) for the production of the Group's products, the management intends to relocate the aforesaid two production lines as the usage of the

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areas surrounding the Nanshan Plant has changed to commercial and residential use. Therefore, the management of the Company expects that there would be complaints regarding the aforesaid bad/peculiar smell in the coming future and relocation to new production base that located in industrial zone is desirable as the Group is mindful of its social responsibility and take into its culture of environmental protection.

After discussion with the management of the Company and the Valuer regarding the usage of the Land and the area surrounding the Land, we noted that the aforesaid area is zoned as industrial usage. Since the Land is located in the industrial zone and is surrounded by land zoned in industrial usage, it is suitable for the production of the food flavors and fine fragrances. We have also conducted due diligence work by visiting the Land. According to the aforesaid visit, we noted that the Land is located in Dajin Industrial Park and surrounded by factories, and is outside the main residential area of Dongguan. We are of the view that (i) since the emission of the aforesaid bad/peculiar smell do not breach the relevant laws of PRC as stated in the previous paragraph, and the Group obtained the Guangdong Province Pollutant Discharge Permit (廣東省污染物排放許可證) for the production of the Group's products as stated above; and (ii) the Land is located in the Dajin Industrial Park in which the land is zoned as industrial usage and surrounded by factory buildings and there is no residential or commercial building nearby, therefore, the potential complaint regarding bad/peculiar smell by resident is minimal.

As advised by the management of the Company, the JV Company would, in running the production plant on the Land, continue to adopt the existing Company's policy which is complied with the relevant PRC laws as stated above in solving the pollution issue.

As disclosed in the Letter from the Board, in anticipation of the potential need for expansion, the Board has considered acquiring a new piece of land and setting up its own factory thereon or acquiring an existing factory for production. However, such expansion plans represent capital commitment and financial burden of the Group which may not be beneficial to the Group. The Group has tried to look for suitable factory or land for such purpose but had difficulty in locating the same in Guangdong province, the PRC, with suitable size, developed infrastructure in the surrounding and suitable for the Group's industry of manufacturing flavors and fragrances. In terms of cost, the Board estimated that an additional cost of approximately RMB40 million (equivalent to approximately HK\$50.6 million) will be required if the Group was to establish its wholly-owned factory or acquiring an established factory instead of the Formation of JV. As at 30 June 2014, the Company recorded cash balance of RMB149.1 million (equivalent to approximately HK\$118.6 million), in which RMB30 million (equivalent to approximately HK\$38.0 million) has been reserved for the Loan and rest of the balance has been reserved for the construction of the office building and research building in Boton Science and Technology Park and the general working capital of the Group. According to the management of the Company, in case that the general working capital used and the cost

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

of construction for the buildings in the said Boton Science and Technology Park is more than RMB119.1 million (equivalent to approximately HK\$150.6 million), the Company may consider to obtain additional funds through bank borrowing.

Furthermore, after discussion with the management of the Company, we noted that further development of the Group's production line by the way of JV Company can diversify the financial burden of the Group without losing control of the aforesaid production line by the Group as stated in the paragraph headed "Management of the JV Company" in the sub-section headed "i. Principal terms of the JV Agreement" above.

However, the profit generated from the JV Company will share with the parties of the JV Company in accordance with the proportion of their respective equity interests of the JV Company by way of dividend payment (please refer to the paragraph headed "Profit Sharing" above). The Shareholders should note that the right of decision making regarding the dividend payment is under the board of directors of the JV Company which is controlled by Boton as stated in the paragraph headed "Management of the JV Company" above.

Based on the above, the Formation of the JV is justifiable.

According to the Legal Opinion and our discussion with the PRC Legal Adviser, we understand that the JV Company and its Corporate Business License 《企業法人營業執照》 have been established legally and is enforceable according to 《中華人民共和國公司法》 (Company Law of the PRC), 《中華人民共和國公司登記管理條例》 (Regulations of the PRC on Administration of Registration of Companies), 《中華人民共和國外資企業法》 (Law of the PRC on Foreign-Capital Enterprises) and other relevant rules and policies. As such, we are of the view that the JV Company is legally established and the business operation is legal according to the related PRC laws.

According to the Letter from the Board, upon Completion, the Factory will be constructed on the Land. According to the management of the Company and the Letter from the Board, the estimated cost of the Factory amounted to approximately RMB20 million (equivalent to approximately HK\$25.3 million) and will be funded by the Loan. It is expected that the construction of the Factory will be completed by December 2015. By then, the Assets and relevant staff will be relocated to the Factory and the Factory will commence production in early 2016. Meanwhile, pending the construction of the Factory, the JV Company has by the Lease Agreement rented from Boton the Production Premises which will be used to manufacture food flavors and fragrances with the Assets and staff transferred from Boton upon Completion. As the Loan amount is RMB30 million, the remaining balance, i.e. RMB10 million, will be used as the general working capital of the JV Company upon Completion, details of which are set out in next section headed "Loan Agreement", we consider that the JV Company would have sufficient working capital for the aforesaid development plan.

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Given the reasons as stated above, we are of the view and concur with the view of the management of the Company that the Formation of JV is in the interests of the Company and the Shareholders as a whole.

2. The Loan Agreement

Boton, an indirect wholly-owned subsidiary of the Company, agreed to advance a Loan of RMB30 million (equivalent to approximately HK\$38.0 million) to the JV Company, subject to Completion, on 1 April 2015 (or such other date as the parties may agree) for the construction of the Factory. According to the Loan Agreement, details of which are set out in the Letter from the Board and according to the management of the Company, the Loan is unsecured and the JV Company shall apply part of the Loan, i.e. RMB20 million, for the construction of the Factory on the Land with the Assets installed therein to manufacture food flavors and fine fragrances by the JV Company and balance of which, i.e. RMB10 million, for the general working capital of the JV Company. The term of the Loan is 24 months from the date of advancement of the Loan and the interest of the Loan is calculated based on the prevailing lending interest rate published by the People's Bank of China on the date of advancement. For reference, the said prevailing lending interest rate as at the Latest Practicable Date was 6%. In the event of early repayment of Loan, the amount of interest payable shall accrue from day to day and shall be calculated on the basis of the actual number of days utilized. The Loan and the interest thereon shall be repaid on the expiry of the term of the Loan. The JV Company shall be entitled to early repay the full amount of the Loan and interest thereon by providing 1 month prior written notice to Boton.

Based on (i) the interest rate calculated according to the prevailing lending interest rate published by the People's Bank of China on the date of advancement; and (ii) the amount of interest payable under early repayment of Loan shall accrue from day to day and shall be calculated on the basis of the actual number of days utilized, we consider that the Loan Agreement is under normal commercial terms and in the interests of the Company and the Shareholders as a whole.

According to the Interim Report 2014, we noted that the amount of cash or cash equivalent of the Group was approximately RMB149.1 million as at 30 June 2014 and with net cash inflow from operation of approximately RMB22.3 million for the six months period ended 30 June 2014. Also, the Group recorded a positive net cash inflow from operation for the past few years. Based on the above, we are of the view and concur with the view of the management of the Company that the Group has sufficient resources to advance a Loan to the JV Company.

In addition, as stated in the JV Agreement, details of which are set out in the section headed "The JV Agreement" to the Letter from the Board, Boton will own 53% of equity interests of the JV Company and the JV Company will become a non-wholly owned subsidiary of the Company upon Completion, and is controlled by the Company as stated in the paragraph headed "Management of the JV Company", we are of the view that the Company can safeguard its interests in relation to the Loan Agreement. In addition, as stated in the

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Interim Report 2014, the Group's cash balance was approximately RMB149.1 million and the net cash inflow generated from business operation was approximately RMB22.3 million for the six months period ended 30 June 2014. Since the Loan is financed by the internal resources without any interest cost and there is net cash inflow generated from business operation, we consider that the entering of the Loan Agreement is fair and reasonable.

Given that the (i) Loan Agreement is under normal commercial terms and in the interests of the Company and the Shareholders as a whole; (ii) the Company has sufficient resources to advance the Loan to the JV Company as stated in the paragraph headed "ii. Reasons for the Formation of JV" above; (iii) Boton will own 53% of equity interests of the Company and the JV Company will become a non-wholly owned subsidiary upon Completion; (iv) the Loan is financed by the internal resources without any interest cost and there is net cash inflow generated from business operation for the six months period ended 30 June 2014; and (v) the JV Agreement and Loan Agreement were entered in the ordinary and usual course of the Company's business, we are of the view that the Loan is fair and reasonable and the entering into the Loan Agreement is in the interests of the Group and the Shareholders as a whole.

3. Financial Effect

Upon Completion, the JV Company would become a non-wholly owned subsidiary of the Group and the financial result of the JV Company would be consolidated in the Group's financial statement.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

RECOMMENDATION

Having taken into consideration of the above principal factors and reasons, we consider that the terms of the JV Agreement and the Loan Agreement are on normal commercial terms and fair and reasonable and the entering into the JV Agreement and the Loan Agreement are in the ordinary and usual course of the Company's business as the Formation of JV is an expansion of the Group's existing business and production capacity and the Loan is a transaction contemplated under incidental to the JV Agreement and are in the interests of the Group and the Shareholders as a whole. Accordingly, we recommend (i) the Independent Board Committee to advise the Independent Shareholders; and (ii) the Independent Shareholders, to vote in favor of the relevant resolution(s) at the EGM to approve the JV Agreement and the Loan Agreement contemplated thereunder.

Yours faithfully,
For and on behalf of
Nuada Limited
Kevin Wong
Vice President

Mr. Kevin Wong is a person licensed to carry out type 6 (advising on corporate finance) regulated activity under the SFO and is a responsible officer of Nuada Limited who has over 11 years of experience in corporate finance industry.

The following is the text of a letter, summary of value and valuation certificate, prepared for the purpose of incorporation in this circular received from BMI Appraisals Limited, an independent valuer, in connection with its valuation as at 30 September 2014 of the property located in the PRC.

BMI APPRAISALS

BMI Appraisals Limited 中和邦盟評估有限公司

33rd Floor, Shui On Centre, Nos. 6-8 Harbour Road, Wanchai, Hong Kong
香港灣仔港灣道6-8號瑞安中心33樓
Tel電話：(852) 2802 2191 Fax傳真：(852) 2802 0863
Email電郵：info@bmintelligence.com Website網址：www.bmi-appraisals.com

4 December 2014

The Directors
China Flavors and Fragrances Company Limited
Room 2101-2, 21/F, Wing On House
71 Des Voeux Road Central
Hong Kong

Dear Sirs,

INSTRUCTIONS

We refer to the instructions from China Flavors and Fragrances Company Limited (the “Company”) for us to value the property located in the People’s Republic of China (the “PRC”) intended to be acquired by Dongguan Tian Cheng Fragrances and Technology Company Limited (the “JV Company”) which is going to be formed by Shenzhen Boton Spice Company Limited, an indirect wholly-owned subsidiary of the Company and Champion Sharp International Investment Limited, a connected person of the Company, we confirm that we have performed an inspection, made relevant enquiries and obtained such further information as we consider necessary for the purpose of providing you with our opinion of the market value of the property as at 30 September 2014 (the “valuation date”).

BASIS OF VALUATION

Our valuation of the concerned property has been based on the Market Value, which is defined as “the estimated amount for which an asset or liability should exchange on the valuation date between a willing buyer and a willing seller in an arm’s-length transaction after proper marketing and where the parties had each acted knowledgeably, prudently and without compulsion”.

VALUATION METHODOLOGY

We have valued the property in the PRC on market basis by the Comparison Approach assuming sale in its existing state with the benefit of vacant possession and by making reference to comparable sales evidence as available in the market. Appropriate adjustments have been made to account for the differences between the property and the comparables in terms of time, location, size and other relevant factors.

TITLE INVESTIGATION

We have been provided with extracts of planning documents and have been advised by the Company that no further relevant documents have been produced. However, we have not examined the original documents to verify ownership or to ascertain the existence of any amendment documents, which may not appear on the copies handed to us. In the course of our valuation, we have relied upon the advice and information given by the Company's PRC legal advisor — Zhong Lun Law Firm regarding the title of the property located in the PRC. All documents have been used for reference only.

VALUATION ASSUMPTIONS

Our valuation has been made on the assumption that the property is sold in the market in its existing state without the benefit of deferred terms contract, leaseback, joint venture, management agreement or any other similar arrangement which might serve to affect the value of the property.

In addition, no account has been taken of any option or right of pre-emption concerning or effecting sale of the property and no forced sale situation in any manner is assumed in our valuation.

VALUATION CONSIDERATIONS

The inspection of the property was conducted by Ms. Ellen Lo (BSc Valuation & Estate Management) in August 2014. However, no tests or investigations are carried out to determine stability or suitability of ground conditions or factors, which could delay completion of a development on the property such as archaeological artifacts, contamination, ecological or environmental considerations. Unless otherwise informed, we have assumed that the site is sound and no delays will occur in a construction schedule due to considerations relating to the site, and that the ground is not contaminated.

In the course of our valuation, we have relied to a considerable extent on the information given by the Company and have accepted advice given to us on such matters as planning approvals or statutory notices, easements, tenures, particulars of occupancy, site area, identification of the property and other relevant information.

We have not carried out detailed on-site measurements to verify the correctness of the site area in respect of the property but have assumed that the site area shown on the documents handed to us are correct. Dimensions, measurements and areas included in the valuation certificate are based on information contained in the documents provided to us by the Company and are therefore only approximations.

We have no reason to doubt the truth and accuracy of the information provided to us by the Company and we have relied on your confirmation that no material facts have been omitted from the information provided. We consider that we have been provided with sufficient information for us to reach an informed view.

No allowances have been made in our valuation for any charges, mortgages or amounts owing on the property or for any expenses or taxation, which may be incurred in effecting a sale or purchase.

Unless otherwise stated, it is assumed that the property is free from encumbrances, restrictions and outgoing of an onerous nature, which could affect its value.

Our valuation has been prepared in accordance with The HKIS Valuation Standards (2012 Edition) published by The Hong Kong Institute of Surveyors.

Our valuation has been prepared under the generally accepted valuation procedures and are in compliance with the requirements contained in Chapter 5 and Practice Note 12 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

REMARKS

Unless otherwise stated, all money amounts stated herein are in Renminbi (RMB) and no allowances have been made for any exchange transfers.

Our Summary of Value and the Valuation Certificate are attached herewith.

Yours faithfully,
For and on behalf of
BMI APPRAISALS LIMITED

Joannau W. F. Chan
BSc., MSc., MRICS, MHKIS, RPS(GP)
Senior Director

Note: Ms. Joannau W.F. Chan is a member of The Hong Kong Institute of Surveyors (General Practice) who has over 15 years' experience in valuations of properties in the People's Republic of China.

SUMMARY OF VALUE

Property intended to be acquired for future development in the PRC

Property	Market Value in existing state as at 30 September 2014 RMB
A portion of a land parcel numbered 441916005002GB02022 located at Dajin Road, Dajin Industrial Park, Liaobu Town, Dongguan City, Guangdong Province, The PRC	No Commercial Value
位於中國廣東省 東莞市寮步鎮 大進工業園區 大進路之一幅地塊（編號：441916005002GB02022）之部份	_____
Total:	Nil

VALUATION CERTIFICATE

Property intended to be acquired for future development in the PRC

<u>Property</u>	<u>Description and tenure</u>	<u>Particulars of occupancy</u>	<u>Market Value in existing state as at 30 September 2014</u>
			<i>RMB</i>
A portion of a land parcel numbered 441916005002GB02022 located at Dajin Road, Dajin Industrial Park, Liaobu Town, Dongguan City, Guangdong Province, The PRC	The property comprises a portion of a land parcel with a site area of approximately 73,977.304 sq.m. As advised by the Company, the property is planned to be developed into an industrial development.	The property is vacant.	No Commercial Value
位於中國廣東省東莞市寮步鎮大進工業園區大進路之一幅地塊（編號：441916005002GB02022）之部份	As advised by the Company, the land use rights of the property will be granted for a term of 50 years for industrial use.		

Notes:

- Pursuant to a planning document, issued by Dongguan City Township Planning Bureau, dated 8 April 2014, the planning and design requirements of the land parcel are as follows:

Site Area:	142,756.42 sq.m.
Plot Ratio:	≤2.2
Building Density:	≤50%
Greenery Ratio:	≥20%
Maximum Building Height:	100 m
User:	M1 (Industrial)

As advised by the Company, the property is a portion of the land parcel.

- In the valuation of the property, we have attributed no commercial value to the property as relevant title certificates of the property have not been obtained. However, for your reference purposes, we are of the opinion that the market value of the property as at the valuation date would be RMB55,500,000 assuming all relevant title certificates have been obtained and the property could be freely transferred in the market.
- The opinion of the PRC legal advisor to the Company contains, inter alia, the following:

There exist no legal impediments for Dongguan Tian Cheng Fragrances and Technology Company Limited (i.e. the JV Company) to obtain the State-owned Land Use Rights Certificate of the property upon successfully acquiring the property through tender, auction or listing, signing the land grant contract and settling the land premium in full and relevant tax of the property in accordance with the land grant contract.

The following is the report prepared for the purpose of incorporation in this circular received from Shenzhen Guosong Assets Appraisal Co., Ltd, an independent valuer, in connection with its valuation as at 31 October 2014 of the Assets of the JV Company.

Assets Valuation Report

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Declaration of Valuer

1. In the course of the implementation of this assets valuation engagement, we abided by the relevant laws and regulations as well as assets valuation standards, and strictly followed the principles of independence, objectiveness and fairness. Pursuant to the information collected from our performance of engagement, the representations contained in the valuation report are objective, and we assume the corresponding responsibilities for the reasonableness of the valuation conclusion.
2. We do not issue the valuation report with pre-determined values as our valuation conclusion.
3. We have no existing or anticipated interests with the valuation subject of the valuation report or relevant parties involved, and have no prejudice towards the relevant parties involved.
4. We have conducted on-site assessment on the valuation subject and its assets involved in the valuation report. We have placed necessary concern over the status of legal ownership of the valuation subject and its assets involved, and have made true disclosure on problems identified. We have also asked the entrusting party and relevant parties involved to optimize their ownership so as to satisfy the requirements for issuing the valuation report.
5. We possess the professional qualifications and relevant professional valuation experiences necessary for the valuation engagement, while no work from other appraisal agencies or experts has been used in this valuation process.
6. The analysis, judgment and conclusion issued by us in the valuation report are subject to the assumptions and the constraints of limitations contained therein. The users of the valuation report shall make full consideration of the assumptions, limitations, notes on special issues and their impacts on the valuation conclusion as set forth in the valuation report.
7. We made estimation on the value of the valuation subject and expressed professional opinions, which form the reference and basis for the performance of economic activities. The valuation report issued by us and the valuation conclusion disclosed therein are solely limited for the valuation objectives as set forth in the valuation report, and we do not assume responsibility for any consequences arising from inappropriate use of this report.
8. The certified assets valuer shall be responsible for conducting estimation on the value of the valuation subject and expressing its professional opinions, while the entrusting party and relevant parties involved shall be responsible for providing necessary information and guaranteeing the truthfulness, legality and completeness of the information provided as well as the appropriate use of the valuation report.

9. We perform the assets valuation engagement for the purpose of making estimation on the value of the valuation subject and expressing professional opinions, and we do not assume responsibility towards the decision-making of relevant parties involved. The valuation conclusion shall not be considered as the guarantee on the realized price of the valuation subject.

10. The valid period of use for the valuation conclusion is one year from the Valuation Benchmark Date as set forth in the valuation report. The users of the valuation report should, based on the assets conditions and market changes after the Valuation Benchmark Date, reasonably determine the period of use for the valuation report.

**Summary of the Assets Valuation Report
(Shen Guo Song Ping Zi [2014] S-No. 0239)**

Shenzhen Guosong Assets Appraisal Co., Ltd. was engaged by Shenzhen Boton Spice Company Limited to evaluate certain inventories and fixed assets stated in the list entrusted by Shenzhen Boton Spice Company Limited. The valuation was carried out in accordance with the relevant PRC regulations on assets appraisal and based on the principles of objectiveness, independence and fairness. We have performed evaluation procedures on the value of the subject properties as at 31 October 2014 (the Valuation Benchmark Date) in accordance with the generally accepted assets valuation methods and summarized the results as follows:

- I. Entrusting party:** the entrusting party of this valuation project, and the appraised unit is Shenzhen Boton Spice Company Limited.
- II. Objectives of the Valuation:** to evaluate certain inventories and fixed assets owned by Shenzhen Boton Spice Company Limited and provide reference regarding to the value of the proposed investment of Shenzhen Boton Spice Company Limited.
- III. Scope and Subject of the Valuation:** the subject properties of this valuation are certain inventories and fixed assets stated in the list entrusted by Shenzhen Boton Spice Company Limited.

The assets included in the scope of valuation are consistent with the scope of assets as entrusted by the entrusting party for valuation.

- IV. Valuation Benchmark Date:** the Valuation Benchmark Date of this report is 31 October 2014. The price standard adopted in the valuation is the effective price standard as at the Valuation Benchmark Date.
- V. Valuation Principles:** the valuation is performed in accordance with the principles of independence, objectiveness, fairness and scientificity. The valuation, which was carried out objectively and fairly, also abided by the economic and technical principles of expected income, demand and supply, contribution, substitution and valuation timing, etc.
- VI. Type of Value and Market Value:** The type of value in this valuation is market value. Market value refers to the estimated amount for which an asset should exchange on the Valuation Benchmark Date between a willing buyer and a willing seller in an arm's length transaction after proper marketing and where the parties had each acted knowledgeably, prudently and without compulsion. This represents the most possible price reasonably obtainable for an asset in the open market in a transaction conducted in accordance with the above conditions.

VII. Valuation Method: Replacement Cost Method

The replacement cost method: the replacement cost method is a valuation approach whereby the difference between all the costs needed to repurchase or build the valued assets in brand new conditions under the current conditions and the substantive depreciation, functional depreciation and economic depreciation of the valued assets which have already occurred is used to determine the valuation values of the valued assets.

VIII. Valuation Conclusion: In our opinion, under the premises of the valuation objectives and value as well as the assumptions as set forth in the valuation report, the valuation conclusion so incorporated could appropriately reflect the value of the inventories and fixed assets as stated in the list entrusted by Shenzhen Boton Spice Company Limited, which is arriving at an appraised value of RMB45,013,400.00 (Renminbi Forty Five Million Thirteen Thousand and Four Hundred Only).

Please refer to the attachment for the detailed valuation.

IX. Special Reminders:

1. This valuation takes no consideration of the impacts on the appraised value imposed by pledge, mortgage and guarantees owed by the appraised assets as well as the relevant taxes and charges incurred in the process of possible transactions in the future, etc.
2. When conducting this valuation, necessary concerns and descriptions were given to the status of legal titles of the valuation subject in this report, but no assurance in any form is made towards the legal titles of the valuation subject.
3. The valuation conclusion of this report is valid for one year (from 31 October 2014 to 30 October 2015). This report will be void after one year, and re-valuation would be necessary.

The above contents are extracted from the original assets valuation report (Shen Guo Song Ping Zi [2014] No. S-0239). If you wish to understand the details of this valuation project and reasonably understand the valuation conclusion, please refer to the original assets valuation report. The separate use of this summary might lead to the misunderstanding or misuse of the valuation report.

Signature of PRC Certified Assets Valuer:

Shenzhen Guosong Assets Appraisal Co., Ltd.

28 November 2014

The above contents are extracted from the assets valuation report. If you wish to understand the full picture of this project, please carefully refer to the text of the assets valuation report and pay attention to the information disclosed in the Notes on Special Issues in the valuation report.

Assets Valuation Report
(Shen Guo Song Ping Zi [2014] No. S-0239)

Shenzhen Guosong Assets Appraisal Co., Ltd. (hereunder the “Appraisal Agency”) accepts the entrustment of Shenzhen Boton Spice Company Limited (“Boton”) to, in accordance with the relevant PRC policies and laws on assets valuation and based on the principles of independence, objectiveness, fairness and scientificity, conduct valuation on certain inventories and fixed assets stated in the list entrusted by Boton for proposed investment in accordance with generally accepted assets valuation methods and operation requirements. The valuation personnel of the Appraisal Agency conducted on-site inspection and market researches on the assets subject to entrusted valuation in accordance with the necessary valuation procedures, and reflected the market value of the assets subject to entrusted valuation as at 31 October 2014, the benchmark date. The valuation conditions and the valuation results of the assets are hereby reported as follows:

I. Entrusting Party, Property Owner and Other Users of the Valuation Report other than the Entrusting Party

(I) Overview of the Entrusting Party

Shenzhen Boton Spice Company Limited is the entrusting party and the entity subject to valuation.

Registration number:	440301503262869;
Company name:	Shenzhen Boton Spice Company Limited;
Registered address:	Kaihong Second Industrial Area, Nanshan District, Shenzhen (深圳市南山區凱虹第二工業區);
Legal Representative:	Wang Ming Fan;
Registered capital:	RMB345 million;
Paid-up registered capital:	RMB345 million;
Company nature:	a company with limited liabilities (wholly-owned by foreign corporation);
Business scope:	Ordinary operation item: research and development on natural spice (extract). Establishment of branches in Shanghai, Hangzhou, Chongqing, Beijing, Wuhan, Xian and Haikou. 90% of the products are exported;

Licensed operation item: production of food flavors, fine flavors, tobacco flavors and beverage flavors (operation with the environmental approval);

Shareholder (promoter): CFF HOLDINGS LIMITED;

Business term: from 25 March 1991 to 25 March 2041;

Establishment date: 25 March 1991.

(II) Overview of Property Owner

The property owner of this valuation is Shenzhen Boton Spice Company Limited.

(III) Report Users other than the Entrusting Party

Apart from providing for the use by the entrusting party, users of the valuation report also includes parties closely related to the economic acts realized for this valuation purpose, specifically shareholders of Shenzhen Boton Spice Company Limited, relevant parties involved and users of valuation report as stipulated by the PRC laws and regulations, such as state-owned assets administration authorities, securities regulatory and administration authorities, etc.

II. Objectives of Valuation

The purpose of this valuation is to reflect the market value of certain inventories and fixed assets subject to proposed investment, and to provide Shenzhen Boton Spice Company Limited with reference regarding to the value of investment.

III. Scope and Subject of the Valuation

The scope and subject of this valuation include certain inventories and fixed assets stated in the list entrusted by Shenzhen Boton Spice Company Limited for proposed investment. The major subjects of this scope of valuation are certain inventories (raw materials) including methyl mercaptan, ethanol (95%) and ethanol (dehydrated) as well as certain fixed assets (machineries, vehicles, office equipment and electronic equipment) including forklift trucks, tilting barrel vehicle and Hangzhou forklift trucks. Please refer to the “Breakdown of Assets Inspection Valuation” for the detailed scope of valuation.

Assets included in the scope of this valuation are consistent with the scope of assets as determined by the entrusted valuation (commitment letter of assets valuation).

IV. Type of Value and its Definition

(I) Type of Value and its Selection

The type of value of valuation includes two types of value, namely market value and values other than market value (investment value, value in use, residual value, settlement value, etc.). Upon thorough communication between the valuation personnel and the entrusting party, it is understood that the inventories and machineries involved in this valuation are mainly used for the production, processing and manufacturing of fragrance. Currently, a majority of equipment and production lines of such fixed assets is being used for production, while the other part of newly purchased equipment is being installed and tested. This valuation was conducted in accordance with relevant conditions such as the purpose of valuation of the appraised items, specific conditions of valuation subject and the collection of valuation information, and with unanimous opinions on the type of value in this valuation arrived with the entrusting party, market value was ultimately selected as the type of value for the valuation conclusion of this valuation report.

(II) Definition of the Type of Value

Definition of market value: Market value refers to the estimated value amount for which an asset should exchange on the benchmark date between a willing buyer and a willing seller in an ordinary and arm's length transaction and where the parties had each acted rationally and without compulsion. Pursuant to the "Guidance on the Type of Value for Assets Valuation" (《資產評估價值類型指導意見》), the assets valuer shall, at the time of determining the market value, know the possible price difference of the same assets in different markets.

(III) Reasons for the Selection of the Type of Value

According to the purpose of the entrusted valuation and the market conditions faced by the valuation subject, in comparison to other types of value, the market value chosen for this valuation could better reflect the fairness and reasonableness of both parties in the transaction while allowing the valuation results to satisfy the requirements of the purpose of this valuation.

V. Valuation Benchmark Date

The Valuation Benchmark Date of this valuation is 31 October 2014.

The Valuation Benchmark Date is determined by the entrusting party in accordance with the specific objectives of this valuation and the date of on-site inspection.

In this assets valuation, matters such as the definition of the scope of assets valuation, the determination of the valued price and the selection of valuation parameters are all determined by the external economic environment and market conditions as at this benchmark date. The price standard (information) adopted in this assets valuation is the prevailing market price in the open market as at the Valuation Benchmark Date.

VI. Basis of Valuation

(I) *Basis of Economic Acts*

1. Assets valuation contract;
2. Commitment letter of assets valuation.

(II) *Basis of Regulations*

1. “Company Law of the People’s Republic of China” (《中華人民共和國公司法》), as amended by the 18th Meeting of the Standing Committee of the Tenth Session of the National People’s Congress on 27 October 2005;
2. “Guarantee Law of the People’s Republic of China” (《中華人民共和國擔保法》);
3. “Assets Valuation Standards-Basic Standards” (《資產評估準則—基本準則》) (Cai Qi (2004) No. 20);
4. “Professional Ethical Standards of Assets Valuation-Basic Standards” (《資產評估職業道德準則—基本準則》) (Cai Qi (2004) No. 20);
5. “Assets Valuation Standards-Valuation Reports and Valuation Procedures” (《資產評估準則—評估報告、評估程序》) (Zhong Ping Xie [2007] No. 189);
6. “Guidance on the Type of Value of Assets Valuation” (《資產評估價值類型指導意見》) (Zhong Ping Xie [2007] No. 189);
7. “Assets Valuation Standards-Machineries and Immovable Properties” (《資產評估準則—機器設備、不動產》) (Zhong Ping Xie [2007] No. 189);
8. “Opinions on Regulation of Assets Valuation Operation (Trial Run)” (《資產評估操作規範意見(試行)》) (as promulgated by China Appraisal Society on 7 May 1996);
9. “Guidance on Concerns of Legal Ownership of Valuation Subject by Registered Assets Appraisers” (《註冊資產評估師關注評估對象法律權屬指導意見》) (Hui Xie [2003] No. 18);

10. “Notice on Certain Problems Regarding the Transformation and Reform of National Implementation of Appreciation Tax” (《關於全國實施增值稅轉型改革若干問題的通知》) (Cai Shui [2008] No. 170) as promulgated by the Ministry of Finance and the State Administration of Taxation on 9 December 2008.

(III) Basis of Ownership

1. Business licences and articles of association of Shenzhen Boton Spice Company Limited, etc.;
2. Purchase invoice and contracts for relevant significant machineries and equipment as provided by Shenzhen Boton Spice Company Limited.

(IV) Basis for Price

1. “Machines and Electronic Products Quotation Manual (《機電產品報價手冊》) (2013 edition) published by Information Research Institute of Mechanical Industry (機械工業信息研究院);
2. China Machinery Website (www.9machinae.com);
3. Output price index for industrial products by sector in China Statistics Yearbook (National Bureau of Statistics);
4. Price index information published by relevant authorities of the PRC and Shenzhen, Guangdong;
5. Price information provided by manufacturers and distributors of relevant equipment;
6. Market price information published on “WWW.IT168.COM”;
7. National vehicle market price information in October 2014 of “Online Vehicle Market” (《網上車市》);
8. Other information.

(V) References Information and Others

1. “Manual on Frequently Used Data and Parameters for Assets Valuation” (《資產評估常用數據與參數手冊》) (enlarged version);
2. Relevant information available for appraisal agency as well as other information obtained by valuation personal from on-site inspection and market research.

VII. Valuation Methodology

(1) Principal Valuation Methods adopted in Evaluation

The replacement cost method: the replacement cost method is a valuation approach whereby the difference between all the costs needed to repurchase or build the valued assets in brand new conditions under current conditions and the substantive depreciation, functional depreciation and economic depreciation of the valued assets which have already occurred is used to determine the valuation values of the valued assets.

Market comparison method: also known as market method, which is a valuation approach whereby adjustment was made to the market values of similar assets after comparing the difference between the valued assets and similar assets sold recently, used to determine the valuation values of the valued assets.

The income method: the income method is a type of asset valuation methodologies used to determine the valuation values of the valued assets by assessing the value of its projected benefits and discounting it into current value.

(2) The Valuation Method of this Valuation

Based on the objectives of this valuation and the basic assumption of continuous usage, as market transaction price of similar equipment on the equipment market was not available and the income of a single unit of equipment cannot be confirmed, we adopted the replacement cost method for this valuation after taking into consideration of the type of value of the valued assets, the specific nature of the valued assets and the information and data available to us.

The replacement cost method is a method, in which the value of the asset appraised is determined by deducting various impairment losses from the current replacement cost of the asset appraised in brand new conditions.

During the course of valuation, the current purchase price of equipment through market quotation and making reference to the relevant price information is based on the model and specifications of the equipment, while also taking into consideration the equipment freight and miscellaneous charges, installation and debugging charges to arrive at the replacement full price of equipment. Equipment newness rate was determined comprehensively through service life approach and survey scoring approach after conducting on-site inspection, making reference to the current, operational and maintenance conditions of the equipment, taking full consideration of factors including the design, manufacturing, usage intensity and maintenance conditions of the equipment and analyzing the influences of substantive, functional and economic depreciation. Please refer to paragraph headed “(2) The Valuation Method of this Valuation” in Appendix II for detail information.

The basic formula :

Valuation = replacement full price × comprehensive newness rate

1. Determination of Replacement Full Price

(1) *Machinery Equipment*

- a. For domestic equipment, the full replacement price is mainly determined with reference to the current market price of equipment of the same type or model in the domestic market, as well as the freight and miscellaneous charges, installation and debugging charges, the basic fees, the other expenses and the capital cost. For certain equipment with no comparable prices, the full replacement price is determined with reference to the historical costs as confirmed by accounting reference and adopting the price index method, whereby price index adjustment was made on the basis of the changes in prices of comparable equipment on the domestic machinery and electronic products market. With respect to a small amount of equipment newly purchased around the Valuation Benchmark Date, the verified original carrying amount was taken as the full replacement price based on the original purchase prices as confirmed through accounting evidences.

- b. For imported equipment, the full replacement price is mainly determined with reference to the CIF price or FOB price of similar equipment in recent period as well as a consideration of the overseas transportation and insurance fees of such equipment, bank fees, corporate handling fees, customs taxes, VAT, domestic freight and miscellaneous charges, installation and debugging charges, basic fees, the other expenses and capital cost.

Full replacement price = Purchase price of equipment + freight and miscellaneous charges + installation and debugging expense + basic expenses + other expenses + capital cost

i. Purchase price

The purchase price is determined by making quotations to manufacturers, trading markets, relevant websites, trading companies or with reference to price data such as 2011 Quotation Manual of Electromechanical Products as well as the contract prices of such equipment or the contract prices of similar equipment.

ii. Freight and miscellaneous charges

The charge is calculated on the basis of the purchase price and by different rates depending on the distance between the manufacturer and the location of the equipment, the weight, shape and size of the equipment.

iii. Installation and debugging charges

The charge is calculated on the basis of the purchase price and by different rates depending on the features, weight and difficulty in installation of the equipment. For small equipment and equipment with no need of installation, the charge is not considered.

iv. Basic expenses

The basic expenses is calculated by different rates depending on the features of the equipment on the basis of the purchase price and with reference to the Methods for Preparation of Estimates of Construction Projects of the Machinery Industry and Indexes for Estimates.

v. Other expenses

The other expenses include the administrative expenses, the expenses for feasibility report and valuation, design fee, engineering supervision fee, etc. It is calculated according to the other fee standard of the construction projects at the same location with the equipment, in combination with the features of the equipment on the basis of the sum of the purchase price, the freight and miscellaneous charges, basic expenses and installation and debugging charges.

vi. Capital cost

The capital cost is calculated evenly over the construction period according to the reasonable period of the project and based on the loan interest rate applicable on the Valuation Benchmark Date.

$$\text{Capital cost} = (\text{purchase price} + \text{freight and miscellaneous charges} + \text{installation and debugging charges} + \text{basic expenses} + \text{other expenses}) \times [(1 + \text{loan interest rate})^{\text{construction period}/2} - 1]$$

(2) *Electronic equipment*

For the equipment, the same model of which is available for sale in the market, it is deemed to be purchased in the same city. The traders will cover the transportation and drop-in installation and debugging for the products purchased. As there is usually no expense other than the purchase price, the purchase price shall be deemed as the replacement full price. The market prices of electronic equipment as at the Valuation Benchmark Date can be determined on the basis of the local market information and recent market prices information from sources such as HC360.com or Alibaba.

$$\text{Replacement full price} = \text{purchase price.}$$

(3) *Vehicles*

The full replacement price of vehicles is made up of the purchase price, the purchase tax and other expenses (such as the vehicle validation fee, license fee and handling fee).

- a. Purchase price: it was determined with reference to the market price of the latest transaction of similar vehicle at which the vehicle is located, while other expenses are determined on the basis of the reasonable charge of the local vehicle management departments.

- b. Vehicle purchase tax: in accordance with the plans for boosting the automobile and steel industries promulgated by the State Council in 2009, the purchase tax of vehicle with 1.6L (including 1.6L) or smaller engine size is 5% of the selling price (excluding the value-added tax), while for vehicle with engine size of over 1.6L, the purchase tax is 10% of the selling price (excluding the value-added tax).
- c. Other expenses: normally includes vehicle inspection fee, license fee, handling fee, etc.

2. Determination of newness rate

(1) *Machinery equipment*

Newness rate = technically assessed newness rate × weight + service life newness rate × weight

a. Technically assessed newness rate

The technically assessed newness rate is mainly determined according to the actual situation of the equipment. The components of the equipment are scored one by one according to the on-site survey of the technical status, work environment and maintenance of the equipment to determine the technically assessed newness rate.

b. Service life newness rate

Service life newness rate is determined by the economic service life and the serviced life.

Service life newness rate = (the economic service life - the serviced life) / the economic service life × 100%

c. Weighting

For equipment with large size or complicated structure, the newness rate is determined with a combination of the service life method and technical survey method. The weighting for the service life method is 0.4 while that for the technical survey method is 0.6.

For equipment with light and simple structure and normal use, the newness rate is determined by service life method based on the time of use in combination of the maintenance condition.

(2) *Electronic equipment*

The newness rate was mainly determined by useful life approach based on the duration of use and maintenance condition.

(3) *Vehicles*

Pursuant to the current standard for mandatory vehicles scrappage, the newness rate was determined by the mileage driven by the vehicle or the useful life (whichever is lower). Then, the integrated rate was determined by combining the above with the newness rate obtained through technical evaluation by on-site surveying.

(4) *Determination of integrated newness rate*

Integrated newness rate = theoretical newness rate × 40%+ surveyed newness rate × 60%

3. Determination of the appraisal value of equipment

Appraisal value = replacement full price × integrated newness rate

4. For equipment with no useful value after dismantling, such as the electronic components of meter system or control system, the appraisal value is nil.
5. The appraisal value of equipment impairment provided by corporate is nil.

VIII. Implementation Process and Conditions of Valuation Procedures

Pursuant to the requirements of relevant PRC assets valuation laws and operation regulations, the valuation personnel of the Appraisal Agency has, based on the matters agreed in the assets valuation contract, implemented audit and examination on the legal documents and relevant information of the assets subject to entrusted valuation and carried out necessary market research as well as other corresponding assets valuation procedures.

This assets valuation could be generally divided into four steps:

(I) Acceptance of Entrustment and Preparation Stage

1. The Appraisal Agency accepted the entrustment of Shenzhen Boton Spice Company Limited on 21 November 2014, and has duly accepted the assets valuation engagement. Upon the acceptance of the entrustment, person-in-charge of the project first understood the composition of the assets subject to entrusted valuation, definition of ownership, status of operation, scope of valuation, purpose of valuation and other conditions.

2. Signing of Assets Valuation Entrustment Contract to determine the liabilities and obligations to be assumed by each party.
3. The entrusting party carried out various pre-valuation preparation works based on the regulatory requirements on valuation, and obtained other relevant information.
4. Formulation of valuation work plan, determination of valuation personnel and formation of professional valuation team to conduct on-site valuation works based on valuation objectives, scope of valuation, assets composition and workload.

(II) On-site Assessment Stage

Valuation personnel conducted verification by adopting appropriate verification methods specific to the characteristics of assets in accordance with the assets valuation reporting information provided. Valuation personnel made cross-check on the appraisal reporting breakdown and other relevant information provided by the entrusting party, and made examination on the model and specifications of the equipment within the scope of valuation while conducting investigation on the operation status of the equipment to understand its integrity condition. Also, valuation personnel determined the newness rate by conducting on-site inspection with the co-operation of professionals.

(III) Valuation Estimation and Comprehensive Processing Stage

Valuation personnel, in light of the type of assets subject to entrusted valuation and based on the on-site valuation inspection, selected the valuation method, collected market information and evaluated and estimated the value of the assets subject to entrusted valuation.

(IV) Analysis on Valuation Results and Compilation of Valuation Report Stage

Based on the preliminary valuation results, the first draft of Valuation Report was collated, combined, analyzed and compiled, and submitted to the entrusting party for its opinions.

Upon thorough discussion with the entrusting party and necessary modifications, the valuation results and relevant assets valuation descriptions would undergo three-tier checks in accordance with prescribed procedures, which would first be checked by the person-in-charge of this valuation project and submitted to the valuation report checker and then the legal representative of the Appraisal Agency for checking. All opinions and feedbacks from checking would be submitted to the valuation project team for further modifications upon determination after thorough discussion. Finally, the valuation project team would complete the report and conduct bookbinding to provide the entrusting party with the formal assets valuation report.

IX. Assumptions for Valuation

The following assumptions have been followed in this valuation:

(I) General Assumptions

1. Transaction assumption involves assuming that all assets to be assessed are being transacted so that valuer can value the assets by simulating the market based on their transaction conditions. The transaction assumption is the most basic premises for asset valuation.
2. The open market assumption involves assuming that for assets traded or intended to be traded on the market, both trading parties are in equal status and have the opportunities and time to obtain sufficient market information so as to make rational judgments on the assets' functions, usage and trading price. The open market assumption is based on the assumption that the assets are able to be publicly traded on the market.
3. Under the asset going concern assumption, it is assumed that assets to be assessed will continue to be used in line with the current purpose, way of use, scale, frequency, environment, etc. In case of change usage, the valuation method, parameters and basis are determined accordingly.

(II) Special Assumptions

1. This valuation assumes that the external economic environment will remain unchanged as at the Valuation Benchmark Date, and the prevailing macro-economy of the PRC will not experience any significant changes;
2. There will be no significant changes in the social economic environment where the enterprise is located and in the policies such as taxation and tax rate implemented;
3. The enterprise continue to operate as a going concern under its existing operating management mode with the diligent work of its future management team;
4. The valuation is only based on the prevailing operation capabilities as at the benchmark date and takes no consideration of either the expansion of operation capabilities resulted from occasions such as management, operation strategies and additional investment, or of the changes in production and operation which might occur after the environmental relocation of the company;

5. The respective assets under this valuation is premised on its actual inventory as at the Valuation Benchmark Date, whereas the prevailing market price of the relevant assets are based on the domestic effective prices as at the Valuation Benchmark Date;
6. This valuation assumes that the basic information and financial information provided by the entrusting party and the appraised entity are true, accurate and complete;
7. The scope of valuation is solely based on the valuation declarations provided by the entrusting party and the appraised entity, and has taken no consideration of any contingent asset and contingent liability which might exist beyond such list provided by the entrusting party and the appraised entity;
8. All the parameters deriving from this valuation take no consideration of the impact of inflation factor.

When there are changes in the above conditions, in general the valuation results will be void.

X. Valuation Conclusion

Upon the implementation of the aforesaid assets valuation procedures and methods, the valuation conclusion for certain inventories and fixed assets stated in the list entrusted by Shenzhen Boton Spice Company Limited for proposed investment as at 31 October 2014 on such basis is RMB45,013,400.00 (rounded to the nearest hundred) (Renminbi Forty Five Million Thirteen Thousand and Four Hundred only).

Please refer to the schedules for the specific valuation conclusion.

XI. Notes on Special Issues

1. This report is prepared based on the information and data provided by the entrusting party, being the property owner, for the purpose of valuation. The entrusting party, being the property owner, is liable for the truthfulness, comprehensiveness, completeness, legality, compliance and reliability of the relevant data and information so provided, and assume the corresponding legal liabilities. The Appraisal Agency is liable for the objectiveness and fairness of the valuation principles, basis of valuation, valuation methodology and valuation results, and assume the corresponding legal liabilities;
2. This valuation takes no consideration of issues such as pledge or guarantees in relation to the assets included in the scope of valuation, as well as the impacts on the valuation conclusion which might be caused by the aforesaid matters after the benchmark date;

3. This valuation neither takes into the account of the legal issues beyond the scope of valuation nor the impacts on the valuation conclusion caused by the change of the asset market after the Valuation Benchmark Date;
4. In this valuation, our valuation personnel has made sampling checks on certain inventories and fixed assets from the workshop situated in Kaihong Second Industrial Area, Nanshan District, Shenzhen (深圳市南山區凱虹第二工業區). This valuation was estimated based on the inventories and fixed assets as listed in the list of entrustment provided by the entrusting party. Users of the valuation report are reminded that our company does not accept any liabilities for the untrue valuation results caused by false information provided;
5. The valuer did not make any technical inspection on the technical parameters and functions of various equipment as at the Valuation Benchmark Date. Under the premises of assuming that the relevant technical information and operation record provided by the appraised entity are true and valid, the valuer made judgment via on-site inspection without leveraging on any inspection device;
6. Pursuant to the “Notice on Certain Problems Regarding the Transformation and Reform of National Implementation of Appreciation Tax” (《關於全國實施增值稅轉型改革若干問題的通知》) (Cai Shui [2008] No. 170), commencing from 1 January 2009, the input tax incurred from purchase or self-manufactured fixed assets by ordinary appreciation tax payers could be deducted from the output tax with the specific invoice for appreciation tax, specific payment letter on import appreciation tax issued by the Customs and the settlement receipt for transportation fees. Pursuant to the aforesaid documents, the purchase price of the equipment subject to this valuation does not include the appreciation tax, and users of the report are reminded of the impacts on the valuation results which might be caused by such issue;
7. This valuation of the assets subject to entrusted valuation was conducted on the premises of the full ownership possessed by the property owner without the involvement of other rights such as possible securities, guarantees or liabilities. For the purpose of this valuation, any disputes arising from the ownership of such asset are not related to the Appraisal Agency and the undersigned certified assets valuer;
8. Relevant users of the report shall fully understand this valuation conclusion and the descriptions of significant matters as stated in the original valuation report. The Appraisal Agency and the undersigned certified assets valuer are not liable to any consequences arising from the relevant investment.

XII. Explanation of the Limitation on the Use of Valuation Report

This valuation conclusion is solely valid for the economic act of the asset valuation report on the valuation items of inventories and fixed assets involved in the proposed investment by Shenzhen Boton Spice Company Limited, representing that this valuation could only be used by Shenzhen Boton Spice Company Limited for the purpose of providing the reference regarding to the value of investment, and should not be used for other purposes.

This valuation report is valid for a period of one year between 31 October 2014 and 30 October 2015, and it is necessary to conduct asset re-valuation after one year.

XIII. Date of Submission of the Valuation Report

The date of submission of the valuation report is 28 November 2014.

Name of Appraisal Agency: Shenzhen Guosong Assets Appraisal Co., Ltd.

Legal Representative: Yan Dong Hai

PRC Certified Valuer: Yan Dong Hai

PRC Certified Valuer: Wang Chen Yang

Shenzhen Guosong Assets Appraisal Co., Ltd.

28 November 2014

Schedule (1) — Breakdown of Assets Inspection Valuation

Entity appraised: Shenzhen Boton Spice Company Limited

Items	Carrying value <i>RMB</i>	Appraisal value <i>RMB</i>	Increase/ (decrease) <i>RMB</i>	Rate of increase/ (decrease) %
Inventories	24,224,341.81	24,224,341.81	—	—
Fixed assets	<u>20,818,847.46</u>	<u>20,789,043.70</u>	<u>(29,803.76)</u>	<u>(0.14)</u>
Total amount of assets	<u><u>45,043,189.27</u></u>	<u><u>45,013,385.51</u></u>	<u><u>(29,803.76)</u></u>	<u><u>(0.07)</u></u>

Schedule (2) — Summary of Results of Inventories Valuation

Entity appraised: Shenzhen Boton Spice Company Limited

Items	Carrying value <i>RMB</i>	Appraisal value <i>RMB</i>	Increase/ (decrease) <i>RMB</i>	Rate of increase/ (decrease) %
Raw materials	24,224,341.81	24,224,341.81	—	—
Total amount	24,224,341.81	24,224,341.81	—	—
Less: provision for devaluation of general merchandise	—	—	—	—
Total amount	<u>24,224,341.81</u>	<u>24,224,341.81</u>	<u>—</u>	<u>—</u>

Schedule (3) — Summary of Results of Fixed Assets Valuation

Entity appraised: Shenzhen Boton Spice Company Limited

Items	Carrying value		Appraisal value		Increase/(decrease)		Rate of increase/(decrease)	
	RMB		RMB		RMB		%	
	Original value	Net value	Original value	Net value	Original value	Net value	Original value	Net value
Fixed assets —								
machinery equipment	16,692,763.59	14,947,735.04	10,605,600.00	13,935,543.70	(6,087,163.59)	(1,012,191.34)	(36.47)	(6.77)
Fixed assets — vehicles	9,049,979.54	3,409,955.42	6,395,500.00	4,215,700.00	(2,654,479.54)	805,744.58	(29.33)	23.63
Fixed assets — office								
equipment	3,487,121.91	798,803.13	2,004,900.00	697,300.00	(1,482,221.91)	(101,503.13)	(42.51)	(12.71)
Fixed assets —								
electronic equipment	<u>4,396,679.20</u>	<u>1,662,353.87</u>	<u>3,397,400.00</u>	<u>1,940,500.00</u>	<u>(999,279.20)</u>	<u>278,146.13</u>	<u>(22.73)</u>	<u>16.73</u>
Total amount of fixed								
assets	<u>33,626,544.24</u>	<u>20,818,847.46</u>	<u>22,403,400.00</u>	<u>20,789,043.70</u>	<u>(11,223,144.24)</u>	<u>(29,803.76)</u>	<u>(33.38)</u>	<u>(0.14)</u>

DESCRIPTIONS OF ASSETS VALUATION

ILLUSTRATION OF ASSETS VERIFICATION

Major issues which might affect the valuation works

1. Assets tabulation and verification or assets valuation which have been carried out and the status of reconciliation.

No previous assets tabulation and verification, assets valuation or reconciliation of material nature have been carried out on Shenzhen Boton Spice Company Limited which might affect the valuation works.

2. Material contracts and litigations which affect manufacturing and operating activities and financial positions.

Shenzhen Boton Spice Company Limited was not involved in any material contracts and litigations which might affect manufacturing and operating activities and financial positions.

3. Nature and amount of secured (pledged) and contingent liabilities or contingent assets and the corresponding status of assets and liabilities.

Shenzhen Boton Spice Company Limited does not have any secured (pledged) and contingent liabilities or contingent assets and is not subject to the resulting status of assets and liabilities.

4. Type of assets and liabilities not recorded and their estimated amount.

Shenzhen Boton Spice Company Limited does not have any material assets and liabilities not recorded which might affect the valuation works.

5. Restriction on assets inspection (objective reasons such as location of assets and method of storage which render on-site inspection impossible).

Shenzhen Boton Spice Company Limited is not subject to any material restriction on assets inspection which might affect the valuation works.

6. Restriction on title information.

Shenzhen Boton Spice Company Limited is subject to restriction on title information. As certain machinery equipment was purchased relatively long time ago, therefore purchase invoices or contracts are not available and certificates of some equipment evidencing the titles of Shenzhen Boton Spice Company Limited were not available.

ILLUSTRATION OF THE BASIS OF VALUATION**(I) Basis of economic acts**

1. Assets valuation contracts ;
2. Commitment letter of assets valuation.

(II) Basis of Regulations

1. “Company Law of the People’s Republic of China ” (《中華人民共和國公司法》) (as amended at the 18th Meeting of the Standing Committee of the Tenth Session of the National People’s Congress on October 27, 2005);
2. “Guarantee Law of the People’s Republic of China” (《中華人民共和國擔保法》);
3. “Assets Valuation Standards-Basic Standards” (《資產評估準則 — 基本準則》) (Cai Qi (2004) No.20);
4. “Professional Ethical Standards of Assets Evaluation-Basic Standards” (《資產評估職業道德準則 — 基本準則》) (Cai Qi (2004) No.20);
5. “Assets Evaluation Standards-Valuation Reports and Valuation Procedures”(《資產評估準則 — 評估報告、評估程序》) (Zhong Ping Xie [2007] No. 189);
6. “Guidance on the Type of Value of Assets Valuation” (《資產評估價值類型指導意見》) (Zhong Ping Xie [2007] No. 189);
7. “Assets Valuation Standards-Machineries and Immovable Properties” (《資產評估準則 — 機器設備、不動產》) (Zhong Ping Xie [2007] No. 189);
8. “Opinions on Regulation of Assets Valuation Operation (Trial Run)” (《資產評估操作規範意見(試行)》) (as promulgated by China Appraisal Society on 7 May 1996);
9. “Guidance on Concerns of Legal Ownership of Valuation Subject by Registered Assets Appraisers” (《註冊資產評估師關注評估對象法律權屬指導意見》) (Hui Xie [2003] No. 18);
10. “Notice on Certain Problems Regarding the Transformation and Reform of National Implementation of Appreciation Tax” (《關於全國實施增值稅轉型改革若干問題的通知》) (Cai Shui [2008] No. 170) as promulgated by the Ministry of Finance and the State Administration of Taxation on 9 December 2008.

(III) Basis of Ownership

1. Business licences and articles of association of Shenzhen Boton Spice Company Limited, etc.;
2. Purchase invoice and contracts for relevant significant machineries and equipment as provided by Shenzhen Boton Spice Company Limited.

(IV) Basis for Price

1. “Mechanical and Electrical Products Quotation Manual”(《機電產品報價手冊》) (2013 Edition) published by the Information Research Institute of Mechanical Industry;
2. China Machinery Website (www.9machinae.com) ;
3. Output price index for industrial products by sector in China Statistics Yearbook (National Bureau of Statistics);
4. Price index information published by relevant authorities of the PRC and Shenzhen, Guangdong;
5. Price information provided by manufacturers and distributors of relevant equipment;
6. Market price information published on “WWW.IT168.COM”;
7. National vehicle market price information in October 2014 of “Online Vehicle Market” (《網上車市》);
8. Other information.

(V) Reference Information and Others

1. “Manual on Frequently Used Data and Parameters for Assets Valuation” (《資產評估常用數據與參數手冊》) (enlarged version);
2. Relevant information available for appraisal agency as well as other information obtained by valuation personal from on-site inspection and market research.

ILLUSTRATION OF THE VALUATION TECHNIQUES OF INVENTORIES AND FIXED-ASSETS**Valuation Method**

Based on the specific objectives of valuation and the characteristics of the assets appraised:

(I) Valuation of Inventories

Inventories mainly represent raw materials. Various factors, including market factors, were taken into consideration in this valuation and carrying amounts were deemed as the appraised values of inventories. The carrying amount of inventories was Renminbi 24,224,341.81, which mainly includes raw materials with carrying amount of Renminbi 24,224,341.81.

During the course of valuation, the valuer requested the corporation to provide a breakdown on the amount of relevant raw material inventories and carried out verification on each item. The final actual carrying amount corresponds with the amount of merchandise of raw material inventories. At the same time, the valuer inspected the list of raw material inventories and verified some of the relevant purchase contracts and invoices. The carrying amount of inventories was Renminbi 24,224,341.81 and the appraised value was Renminbi 24,224,341.81, while no increase or decrease was identified in the valuation.

(II) Valuation of fixed assets

1. Overview of the Equipment

The net carrying amount of fixed asset equipment was Renminbi 20,818,847.46. At present, such unit has 175 machinery equipment, 32 vehicles, 43 office equipment and 52 electronic equipment. Currently, all equipment is operating normally and the office and electronic equipment are located in the company offices and manufacturing workshops.

2. Valuation Process

(1) Inspection and Verification

- (1) In order to ensure the accuracy of the valuation results, the valuer instructed the enterprise to fill out the assets inspection and valuation form in light of its actual conditions and in accordance with the composition of the equipment assets of the enterprise and performed the valuation on this basis.
- (2) Based on the nature and characteristics of different equipment assets included in the assets inspection and valuation form, the valuer applied different inspection and verification methods to conduct on-site inspection. The valuer took appropriate steps to ensure there are no repetition and no omission and observed and recorded the actual operation status of the equipment seriously. With respect to small-scale equipment of smaller value and amount, the equipment valuer mainly verified the financial accounting books, fixed-assets list and the replacement and decommission record of equipment and conducted on-site inspection on the physical inventories on a random basis.
- (3) Based on the results of on-site inspection, the valuer further improved and inspected the evaluation breakdown in order to ensure that the “superficial information” consists with the “real situation”.

- (4) With respect to the title of equipment and vehicles fall within the scope of this valuation, various procedures were performed, such as conducting random check on the purchase contracts of material equipment, verifying the driving licences, inspecting the breakdown of fixed assets and the corresponding financial evidences as well as studying the composition of the original carrying amount of the equipment.

- (2) Valuation

On the basis of the objectives of valuation, the valuer confirmed the type of value, selected the valuation method, performed market quotation and carried out the evaluation.

- (3) Summary of Valuation

The valuer analyzed and summarized the preliminary valuation results of the equipment assets and made necessary adjustments, amendments and improvements on the results of valuation.

- (4) Prepare the Illustration of Valuation Techniques

“The Illustration of Valuation Techniques of Equipment” was prepared in accordance with the relevant requirements of the assets valuation standards and valuation requirements.

3. *Valuation Methods*

Fixed assets are mainly machinery equipment, vehicles, office equipment and electronic equipment for which market transaction price of similar equipment on the equipment market was not available and the income of a single unit of equipment cannot be confirmed. Replacement cost method was adopted for this valuation of machinery equipment.

The replacement cost method is a method, in which the fair value of the asset appraised is determined by deducting various impairment losses from the current replacement cost of the asset appraised in brand new conditions. During the course of valuation, the valuer obtained the current purchase price of equipment through market quotation and making reference to the relevant price information based on the model and specifications of the equipment, while also taking into consideration the equipment freight and miscellaneous charges, installation and debugging charges to arrive at the replacement full price of equipment. Equipment newness rate was determined comprehensively through service life approach and survey scoring approach after

conducting on-site inspection, making reference to the current, operational and maintenance conditions of the equipment, taking full consideration of factors including the design, manufacturing, usage intensity and maintenance conditions of the equipment and analyzing the influences of substantive, functional and economic depreciation. Its basic formula is:

$$\text{Valuation} = \text{replacement full price} \times \text{integrated newness rate}$$

(1) Determination of Replacement Full Price

(1) Machinery Equipment

- ① For domestic equipment, the full replacement price is mainly determined with reference to the current market price of equipment of the same type or model in the domestic market, as well as the freight and miscellaneous charges, installation and debugging charges, the basic expenses, the other expenses and the capital cost. For certain equipment with no comparable prices, the full replacement price is determined with reference to the historical costs as confirmed by accounting reference and adopting the price index method, whereby price index adjustment was made on the basis of the changes in prices of comparable equipment on the domestic machinery and electronic products market. With respect to a small amount of equipment newly purchased around the Valuation Benchmark Date, the verified original carrying amount was taken as the full replacement price based on the original purchase prices as confirmed through accounting evidences.
- ② For imported equipment, the full replacement price is mainly determined with reference to the CIF price or FOB price of similar equipment in recent period as well as a consideration of the overseas transportation and insurance fees of such equipment, bank fees, corporate handling fees, customs taxes, VAT, domestic freight and miscellaneous charges, installation and debugging charges, basic fees, the other expenses and capital cost.

$$\begin{aligned} \text{Full replacement price} = & \text{Purchase price of equipment} + \text{freight and} \\ & \text{miscellaneous charges} + \text{installation and} \\ & \text{debugging expense} + \text{basic expenses} + \\ & \text{other expenses} + \text{capital cost} \end{aligned}$$

a. Purchase price

The purchase price is determined by making quotations to manufacturers, trading markets, relevant websites, trading companies or with reference to price data such as 2011 Quotation Manual of Electromechanical Products as well as the contract prices of such equipment or the contract prices of similar equipment.

b. Freight and miscellaneous charges

The charge is calculated on the basis of the purchase price and by different rates depending on the distance between the manufacturer and the location of the equipment, the weight, shape and size of the equipment.

c. Installation and debugging charges

The charge is calculated on the basis of the purchase price and by different rates depending on the features, weight and difficulty in installation of the equipment. For small equipment and equipment with no need of installation, the charge is not considered.

d. Basic expenses

The basic expenses is calculated by different rates depending on the features of the equipment on the basis of the purchase price and with reference to the Methods for Preparation of Estimates of Construction Projects of the Machinery Industry and Indexes for Estimates.

e. Other expenses

The other expenses include the administrative expenses, the expenses for feasibility report and valuation, design fee, engineering supervision fee, etc. It is calculated according to the other fee standard of the construction projects at the same location with the equipment, in combination with the features of the equipment on the basis of the sum of the purchase price, the freight and miscellaneous charges, basic expenses and installation and debugging charges.

f. Capital cost

The capital cost is calculated evenly over the construction period according to the reasonable period of the project and based on the loan interest rate applicable on the Valuation Benchmark Date.

$$\text{Capital cost} = (\text{purchase price} + \text{freight and miscellaneous charges} + \text{installation and debugging charges} + \text{basic expenses} + \text{other expenses}) \times [(1 + \text{loan interest rate})^{\text{construction period}/2} - 1]$$

(2) Electronic equipment

For the equipment, the same model of which is available for sale in the market, it is deemed to be purchased in the same city. The traders will cover the transportation and drop-in installation and debugging for the products purchased. As there is usually no expense other than the purchase price, the purchase price shall be deemed as the replacement full price. The market prices of electronic equipment as at the Valuation Benchmark Date can also be determined on the basis of the local market information and recent market prices information from sources such as HC360.com or Alibaba. Under such case, replacement full price is the same as the purchase price.

(3) Vehicles

The full replacement price of vehicles is made up of the purchase price, the purchase tax and other expenses (such as the vehicle validation fee, license fee and handling fee).

- a. Purchase price : it was determined with reference to the market price of the latest transaction of similar vehicle at which the vehicle is located, while other expenses are determined on the basis of the reasonable charge of the local vehicle management departments.
- b. Vehicle purchase tax : in accordance with the plans for boosting the automobile and steel industries promulgated by the State Council in 2009, the purchase tax of vehicle with 1.6L (including 1.6L) or smaller engine size is 5% of the selling price (excluding the value-added tax), while for vehicle with engine size of over 1.6L, the purchase tax is 10% of the selling price (excluding the value-added tax).
- c. Other expenses : normally includes vehicle inspection fee, license fee, handling fee, etc.

(2) Determination of Newness Rate

(1) Useful life newness rate

$$\text{Newness rate} = (1 - \text{serviced life} / \text{useful life}) \times 100\% \text{ or } \text{remaining useful life} / (\text{remaining useful life} + \text{useful life}) \times 100\%$$

The serviced life of equipment is determined after taking comprehensive consideration of factors such as the conditions of usage rate, burden of usage, repair and maintenance, major repair and technical reform and environmental conditions, while adjustments were made in accordance with the practical situation of on-site inspection.

(2) Newness rate of on-site survey method

The valuer and on-site inspectors carried out on-site inspection on each components of the equipment, assessed the deterioration of each components of the equipment and compared with new equipment, through which a certain percentage is arrived at to determine the newness rate of the equipment.

The table of equipment survey scoring standard is as follows:

No.	Integrity Condition of the Equipment	Standard Scores
1	Accuracy and performance	15
2	The condition of various transmission, rotation and speed changing systems	15
3	The condition of operation system	15
4	The condition of lubrication and cooling system	10
5	The condition of electrical digital control system	10
6	Abrasion of the sliding parts and bearing	10
7	Condition of the supplementary instruments and meters	10
8	Overall external appearance	5
9	Condition of accessories and supplementary devices	5
10	Condition of the safety and protection device	<u>5</u>
	Condition of the protection device	<u><u>Total 100</u></u>

(3) Integrated newness rate = Useful life newness rate × 40% + newness rate of on-site survey method × 60%

1. RESPONSIBILITY STATEMENT

This circular, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the 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 the information contained in this circular is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this circular misleading.

2. DIRECTORS' INTERESTS IN SECURITIES

- (a) Save as disclosed below, as at the Latest Practicable Date, none of the Directors or chief executive of the Company had any interests or short positions in the Shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were required pursuant to (a) Divisions 7 and 8 of Part XV of the SFO, to be notified to the Company and the Stock Exchange; or (b) section 352 of the SFO, to be entered in the register required to be kept by the Company under such provision; or (c) the Model Code for Securities Transactions by Directors of Listed Companies of the Listing Rules, to be notified to the Company and the Stock Exchange:

- (i) *Beneficial interest in the shares of the Company*

Name of Director	Capacity/Nature of interest	Number of shares held (Long Position)	Approximate percentage of issued share capital of the Company
Mr. Wang Ming Fan	Beneficial owner (<i>Note 1</i>) Interest of controlled corporation (<i>Note 2</i>)	373,983,378	59.48%

Notes:

- Mr. Wang is personally interested in 49,431,540 shares of the Company.
- By virtue of the SFO, Mr. Wang is deemed to be interested in all the 324,551,838 Shares held by Creative China Limited, which represents 51.62% of the issued share capital of the Company, in which 41.19% of the issued share capital of Creative China Limited is owned by Mr. Wang.

- (ii) *Beneficial interests in the shares of Creative China Limited, an associated corporation (defined in the SFO) of the Company*

Name of Director	Class and number of shares held in associated corporation	Percentage of issued shares
Mr. Wang Ming Fan	4,559 ordinary shares	41.19%
Mr. Qian Wu	763 ordinary shares	6.89%
Mr. Li Qing Long	436 ordinary shares	3.94%

- (b) Save as disclosed in this circular, as at the Latest Practicable Date, none of the Directors or chief executive of the Company had any interest and short positions in the shares, underlying shares and debentures of the Company or any associated corporations (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including the interests and short positions in which they were deemed or taken to have under such provisions of the SFO), or which are required, pursuant to section 352 of the SFO, to be entered in the register maintained by the Company referred to therein, or which were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers contained in the Listing Rules, to be notified to the Company and the Stock Exchange.

3. SUBSTANTIAL SHAREHOLDERS' INTERESTS IN SECURITIES

- (a) As at the Latest Practicable Date, so far as is known to the Directors or the chief executive, the following person, other than a Director or chief executive of the Company, had an interest or short position in the shares and underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or were directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of the Company:

Name of shareholder	Capacity/Nature of interest	Number of shares held (long position)	Approximate percentage of issued share capital of the Company
Creative China Limited (<i>Note</i>)	Beneficial owner	324,551,838	51.62%

Note:

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. As at the Latest Practicable Date, Mr. Wang, Mr. Qian Wu and Mr. Li Qing Long were Directors of the Company and also directors of Creative China Limited.

- (b) Save as disclosed in this circular, so far as is known to the Directors or the chief executive, as at the Latest Practicable Date, there was no other person who had an interest or short position in the shares and underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or, had a direct or indirect interests amounting to 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other members of the Group.

4. DIRECTORS' INTERESTS IN ASSETS OF THE GROUP

- (a) Save for Mr. Wang's interest in the JV Agreement, the Loan Agreement, the Lease Agreement and the Trademark Licence Agreement, as at the Latest Practicable Date, none of the Directors was materially interested, directly or indirectly, in any contract or arrangement entered into by any member of the Enlarged Group subsisting as at the Latest Practicable Date which was significant in relation to the business of the Enlarged Group.
- (b) Save for the Assets to be transferred to the JV Company, as at the Latest Practicable Date, none of the Directors had any direct or indirect interest in any assets acquired or disposed of by or leased to any member of the Enlarged Group or is proposed to be acquired or disposed of by or leased to any member of the Enlarged Group since 31 December 2013, being the date to which the latest published audited accounts of the Group were made up.
- (c) As at the Latest Practicable Date, none of the Directors had entered or proposed to enter into any service contract with any member of the Enlarged Group which does not expire or is not determinable by any member of the Enlarged Group within one year without payment of compensation, other than statutory compensation.

5. MATERIAL ADVERSE CHANGE

The Directors confirm that there has been no material adverse change in the financial or trading position of the Group since 31 December 2013, being the date to which the latest audited consolidated financial statements of the Group were made up.

6. COMPETING BUSINESS

None of the Directors and his associates (as defined in the Listing Rules) has any interests in any business apart from the Group's business, which competes or is likely to compete, either directly or indirectly, with the business of the Group.

7. EXPERTS AND CONSENTS

The following are the qualifications of the experts who have been named in this circular or have given opinions or advice which are contained in this circular:

Name	Qualifications
Nuada Limited	An independent financial adviser and a corporation licensed to carry on type 6 (advising on corporate finance) regulated activities under the SFO
BMI Appraisals Limited	Independent property valuer
Shenzhen Guosong Assets Appraisal Co. Ltd	Independent valuer in the PRC
Zhong Lun Law Firm	PRC Legal Advisers

Each of the above experts has given and has not withdrawn its written consent to the issue of this circular with the inclusion herein its letter or report or references to its name in the form and context in which it appear.

As at the Latest Practicable Date, each of the above experts did not have any shareholding, directly or indirectly, in any member of the Group or any right or option (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group.

As at the Latest Practicable Date, each of the above experts did not have any direct or indirect interests in any assets which have been, since 31 December 2013 (being the date to which the latest published audited accounts of the Group were made up), acquired or disposed of by or leased to any member of the Group, or which are proposed to be acquired or disposed of by or leased to any member of the Group.

8. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents are available for inspection at the head office and principal place of business of the Company in Hong Kong at Room 2101-02, 21st Floor, Wing On House, 71 Des Voeux Road Central, Central, Hong Kong during normal business hours of the Company on any business day, from the date of this circular up to and including the date of the EGM:

- (a) the JV Agreement;
- (b) the Loan Agreement;
- (c) the Lease Agreement; and
- (d) the Trademark Licence Agreement.

NOTICE OF EGM



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)

NOTICE IS HEREBY GIVEN that an extraordinary general meeting (the “**Meeting**”) of China Flavors and Fragrances Company Limited (the “**Company**”) will be held on Friday, 19 December 2014 at 11:00 am at Pacific Room, Island Pacific Hotel, 152 Connaught Road West, Hong Kong for the purpose of considering and, if thought fit, passing with or without modifications or amendments, the following as ordinary resolution of the Company. Unless otherwise indicated, terms defined in the Company’s circular dated 4 December 2014 shall apply to this notice of EGM:

ORDINARY RESOLUTION

“THAT:

- (1) (a) the entering into of the JV Agreement dated 6 November 2014 and Supplemental JV Agreement dated 19 November 2014 (a copy of which marked “A” and “B” respectively have been produced to the Meeting and initialed by the chairman of the Meeting for identification purpose) by Boton, an indirect wholly-owned subsidiary of the Company, in relation to the Formation of the JV and the transactions contemplated thereunder be and are hereby confirmed, approved and ratified, subject to such addition or amendment as any director(s) or authorised person(s) of the Company and/or Boton may consider necessary, desirable or appropriate;
- (b) any director(s) or authorised person(s) of the Company be and are hereby authorised for and on behalf of the Company to, amongst others, sign, execute and deliver or to authorise the signing, execution and delivery of all such documents and deeds as such director(s) or authorised person(s) may consider necessary, expedient or desirable to give effect to or otherwise in connection with the JV Agreement, the Supplemental JV Agreement and any ancillary documentation and transaction thereof;
- (2) (a) the entering into of the Loan Agreement dated 6 November 2014 (a copy of which marked “C” has been produced to the Meeting and initialed by the chairman of the Meeting for identification purpose) by Boton in relation to the Loan and the transactions contemplated thereunder be and are hereby confirmed, approved and ratified and in respect of the Loan Agreement, subject to such addition or amendment as any director(s) or authorised person(s) of the Company and/or Boton may consider necessary, desirable or appropriate; and

NOTICE OF EGM

- (b) any director(s) or authorised person(s) of the Company be and are hereby authorised for and on behalf of the Company to, amongst others, sign, execute and deliver or to authorise the signing, execution and delivery of all such documents and deeds as such director(s) or authorised person(s) may consider necessary, expedient or desirable to give effect to or otherwise in connection with the Loan Agreement and any ancillary documentation and transaction thereof.”

Yours faithfully,
By Order of the Board
China Flavors and Fragrances Company Limited
Ma Man Wai
Company Secretary

Hong Kong, 4 December 2014

NOTICE OF EGM

Head office and principal place of business in Hong Kong:

Room 2101-02, 21st Floor

Wing On House

71 Des Voeux Road Central

Central, Hong Kong

Notes:

1. A member of the Company entitled to attend and vote at the EGM is entitled to appoint another person at his/her/its proxy to attend and vote in his/her/its stead in accordance with the bye-laws of the Company. A proxy needs not be a member of the Company.
2. A form of proxy for use at the EGM is enclosed. Whether or not you intend to attend the EGM in person, you are encouraged to complete and return the enclosed form of proxy in accordance with the instructions printed thereon. Completion and return of a form of proxy will not preclude a member from attending in person and voting at the EGM or any adjournment thereof, should he so wish.
3. In order to be valid, the form of proxy, together with a power of attorney or other authority, if any, under which it is signed, or a certified copy of such power or authority must be deposited at Company's branch share registrar in Hong Kong, Tricor Investor Services Limited at 22/F., Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong not less than 48 hours before the time appointed for holding the EGM or any adjournment thereof.
4. The instrument appointing a proxy shall be in writing under hand of the appointer or of his/her attorney duly authorized in writing or, if the appointer is a corporation, either under its common seal or under the hand of an officer, attorney or other person authorized to sign the same.
5. In the case of joint holders of shares, any one of such holders may vote at the EGM, either personally or by proxy, in respect of such shares as if he was solely entitled thereto, but if more than one of such joint holders are present at the EGM personally or by proxy, that one of the said persons so present whose name stands first in the register of members of the Company in respect of such shares shall alone be entitled to vote in respect thereof.

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