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**THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION**

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**If you are in any doubt** as to any aspect of this circular or as to the action you should take, you should consult your licensed securities dealer or other registered institution 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 with the accompanying proxy form to the purchaser or transferee or to the bank, licensed securities dealer or other agent through whom the sale or transfer was effected for transmission to the purchaser or transferee.

Hong Kong Exchanges and Clearing Limited and The Stock Exchange of Hong Kong Limited take no responsibility for the contents of this circular, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this circular.

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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)**

**DISCLOSEABLE TRANSACTIONS  
BUSINESS TRANSFERS  
INVOLVING THE ISSUE OF PERPETUAL SUBORDINATED  
CONVERTIBLE SECURITIES UNDER SPECIFIC MANDATE  
AND  
PROPOSED INCREASE IN AUTHORISED SHARE CAPITAL**

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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 6 to 31 of this circular.

A notice dated 21 June 2016 convening the EGM of China Flavors and Fragrances Company Limited 中國香精香料有限公司 to be held at Jasmine Room, Best Western Plus Hotel Hong Kong, 308 Des Voeux Road West, Hong Kong on 15 July 2016 at 11:00 a.m. is set out in this circular. A form of proxy for use at the EGM is enclosed in this circular. Such form of proxy is also published on the website of The Stock Exchange of Hong Kong Limited ([www.hkexnews.hk](http://www.hkexnews.hk)).

Whether or not you are able to attend the meeting, you are requested to complete and return the enclosed form of proxy in accordance with the instructions printed thereon as soon as possible and in any event not less than 48 hours before the time fixed for holding the EGM or any adjournment thereof. Completion and return of the form of proxy will not preclude you from attending and voting at the EGM or any adjourned meeting if you so wish.

21 June 2016

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## DEFINITIONS

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

“Announcement”	the announcement of the Company dated 26 April 2016 in relation to the Business Transfers
“Agreements”	the First Agreement, the Second Agreement, the Third Agreement and the Fourth Agreement
“Board”	the board of Directors of the Company
“Business Day”	means any day (excluding Saturday, Sunday and public holiday) on which licensed banks in Hong Kong are open to the general public for business
“Business Transfers”	the First Transfer, the Second Transfer, the Third Transfer and the Fourth Transfer
“Company”	China Flavors and Fragrances Company Limited (中國香精香料有限公司), a company incorporated in the Cayman Islands with limited liability, the issued shares of which are listed on the Main Board of the Stock Exchange
“Completion Date”	26 April 2016, the completion date of the Agreements
“Conversion Price”	HK\$3.00 per Conversion Share, subject to adjustment pursuant to the terms of the PSCS
“Conversion Shares”	the 378,544,000 new Shares to be allotted and issued to holders of the PSCS upon the conversion of the PSCS
“Director(s)”	director(s) of the Company
“EGM”	an extraordinary general meeting of the Company to be convened to consider and approve, among other things, the issuance of the Conversion Shares under the Specific Mandate and the Increase in Authorised Share Capital
“First Agreement”	the business transfer agreement dated 26 April 2016 entered into by the First Vendor and the Company in relation to the transfer of the First Subject Business

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## DEFINITIONS

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“First Auditor”	the auditor jointly appointed by the Company and the First Vendor in respect of the First Subject Business
“First Subject Business”	the business of the research and development, manufacturing and sale of tobacco and flavors currently carried on by the First Vendor
“First Vendor”	Shenzhen Huiji Company Limited* (深圳市輝際實業有限公司), a company established in the PRC with limited liability
“First Transfer”	the transfer of the First Subject Business pursuant to the First Agreement
“First Warrantors”	Mr. Shao Fafei (邵發飛) and Ms. Huang Yuequan (黃月全)
“Fourth Agreement”	the business transfer agreement dated 26 April 2016 entered into by the Fourth Vendor and the Company in relation to the transfer of the Fourth Subject Business
“Fourth Auditor”	the auditor jointly appointed by the Company and the Fourth Vendor of the Fourth Subject Business
“Fourth Subject Business”	the business of the research and development, manufacturing and sale of tobacco and flavors currently carried on by the Fourth Vendor
“Fourth Transfer”	the transfer of the Fourth Subject Business pursuant to the Fourth Agreement
“Fourth Vendor”	Hainan Central South Island Spice and Fragrance Company Limited* (海南中南島香精香料有限公司), a company established in the PRC with limited liability
“Fourth Warrantor”	Mr. Shao Wanfeng (邵萬峰)
“Group”	the Company and its subsidiaries
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“Hong Kong”	Hong Kong Special Administrative Region of the People’s Republic of China

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## DEFINITIONS

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“Increase in Authorised Share Capital”	the proposed increase in authorised share capital of the Company from HK\$80,000,000 (divided into 800,000,000 Shares) to HK\$160,000,000 (divided into 1,600,000,000 Shares) by the creation of an additional 800,000,000 Shares
“Independent Third Parties”	any person(s) or company(ies) and their respective ultimate beneficial owner(s), to the best of the Directors’ knowledge, information and belief having made all reasonable enquiries, are not connected persons of the Company and are third parties independent of the Company and its connected persons in accordance with the Listing Rules
“Latest Practicable Date”	16 June 2016, being the latest practicable date prior to the printing of this circular for ascertaining certain information contained herein
“Listing Committee”	has the meaning ascribed to it under the Listing Rules
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“PRC”	the People’s Republic of China, and for the purposes of this circular, excluding Hong Kong, Macau and Taiwan
“PSCS”	the perpetual subordinated convertible securities to be issued by the Company to the Vendors within 15 business days from the completion date of the relevant Agreements (or such other date as the parties may agree)
“RMB”	Renminbi, the lawful currency of the PRC
“Second Agreement”	the business transfer agreement dated 26 April 2016 entered into by the Second Vendor and the Company in relation to the transfer of the Second Subject Business
“Second Auditor”	the auditor jointly appointed by the Company and the Second Vendor in respect of the Second Subject Business
“Second Subject Business”	the business of the research and development, manufacturing and sale of tobacco and flavors currently carried on by the Second Vendor
“Second Transfer”	the transfer of the Second Subject Business pursuant to the Second Agreement

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## DEFINITIONS

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“Second Vendor”	Shenzhen Da Herong Spice Company Limited* (深圳市大合榮香料實業有限公司), a company established in the PRC with limited liability
“Second Warrantors”	Mr. Chen Jiliang (陳積良) and Ms. Li Fahui (李發輝)
“Share(s)”	ordinary share(s) of HK\$0.10 each in the share capital of the Company
“Share Options”	means Share Options granted to certain eligible participants under the Share Option scheme adopted by the Company on 25 November 2005
“Shareholder(s)”	holder(s) of Shares
“Specific Mandate”	the specific mandate to be sought from Shareholders at the EGM for the issuance of the Conversion Shares
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Subject Businesses”	the First Subject Business, the Second Subject Business, the Third Subject Business and the Fourth Subject Business
“Third Agreement”	the business transfer agreement dated 26 April 2016 entered into by the Third Vendor and the Company in relation to the transfer of the Third Subject Business
“Third Auditor”	the auditor jointly appointed by the Company and the Third Vendor in respect of the Third Subject Business
“Third Subject Business”	the business of the research and development, manufacturing and sale of tobacco and flavors currently carried on by the Third Vendor
“Third Transfer”	the transfer of the Third Subject Business pursuant to the Third Agreement
“Third Vendor”	Guangzhou Fangyuan Spice Company Limited* (廣州市芳源香料有限公司), a company established in the PRC with limited liability
“Third Warrantors”	Mr. Lin Tengfei (林騰飛) and Ms. Lai Riying (賴日英)

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## DEFINITIONS

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“Vendors”	The First Vendor, the Second Vendor, the Third Vendor and the Fourth Vendor
“Warrantors”	The First Warrantors, the Second Warrantors, the Third Warrantors and the Fourth Warrantor
“%”	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 RMB1 to HK\$1.18. 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*

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LETTER FROM THE BOARD

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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)**

*Executive Directors:*

Mr. Wang Ming Fan (*Chairman & Chief Executive Officer*)

Mr. Li Qing Long

Mr. Qian Wu

*Non-Executive Director:*

Ms. Sy Wai Shuen

*Independent Non-Executive Directors:*

Mr. Leung Wai Man, Roger

Mr. Ng Kwun Wan

Mr. Zhou Xiao Xiong

*Registered Office:*

Century Yard, Cricket Square

Hutchins Drive

P.O. Box 2681 GT

George Town

Grand Cayman

Cayman Islands

British West Indies

*Head Office and Principal Place of  
Business in Hong Kong:*

Room 2101-02, 21/F

Wing On House

71 Des Voeux Road Central

Central

Hong Kong

21 June 2016

*To the Shareholders*

Dear Sir or Madam,

**DISCLOSEABLE TRANSACTIONS  
BUSINESS TRANSFERS  
INVOLVING THE ISSUE OF PERPETUAL SUBORDINATED  
CONVERTIBLE SECURITIES UNDER SPECIFIC MANDATE  
AND  
PROPOSED INCREASE IN AUTHORISED SHARE CAPITAL**

**INTRODUCTION**

Reference is made to the announcement of the Company dated 26 April 2016 in relation to the Business Transfers. On 26 April 2016 (after trading hours), the Company entered into the Agreements with four Vendors in respect of the four separate Business Transfers with the consideration to be settled partly by cash and partly by PSCS, which shall be issued pursuant to the Specific Mandate.



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## LETTER FROM THE BOARD

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The purpose of this circular is to provide Shareholders with, among other things, (i) further details of the Agreements and the transactions contemplated thereunder; (ii) details of the Specific Mandate; (iii) further details about the Increase in Authorised Share Capital; and (iv) the notice of the EGM together with the proxy form.

A notice convening the EGM is set out on page EGM-1 to page EGM-4 of this circular.

### FIRST AGREEMENT

#### Date

26 April 2016 (after trading hours)

#### Parties

First Vendor: Shenzhen Huiji Company Limited\*  
(深圳市輝際實業有限公司)

Purchaser: the Company

First Warrantors: Mr. Shao Fafei (邵發飛) and Ms. Huang Yuequan (黃月全), who are the legal and beneficial owners of the First Vendor

To the best of the Directors' knowledge, information and belief having made all reasonable enquiries, the First Vendor and the First Warrantors are Independent Third Parties.

#### Consideration

The consideration for acquiring the First Subject Business is RMB432,000,000 (equivalent to approximately HK\$509,760,000). As at the Latest Practicable Date, an aggregate amount of RMB30,000,000 (equivalent to approximately HK\$35,400,000) has been paid by the Company to the First Vendor. The balance of the consideration shall be settled or paid to the First Vendor (or its nominee(s)) in the following manner:

- (a) RMB75,000,000 (equivalent to approximately HK\$88,500,000) cash shall be paid by the Company within 60 days after the Completion Date;
- (b) RMB10,000,000 (equivalent to approximately HK\$11,800,000) cash shall be paid if the audited net profit of the First Subject Business for the first year of the Completion Date is not less than RMB27,000,000. The Company shall pay within 10 business days from the date the relevant audit was completed by the First Auditor which shall take place within 2 months from the expiry date of the first anniversary of the Completion Date;

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## LETTER FROM THE BOARD

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- (c) RMB10,000,000 (equivalent to approximately HK\$11,800,000) cash shall be paid if the audited net profit of the First Subject Business for the second year of the Completion Date is not less than RMB27,000,000. The Company shall pay within 10 business days from the date the relevant audit was completed by the First Auditor, which shall take place within 2 months from the expiry date of the second anniversary of the Completion Date;
- (d) RMB10,000,000 (equivalent to approximately HK\$11,800,000) cash shall be paid if the audited net profit of the First Subject Business for the third year of the Completion Date is not less than RMB27,000,000. The Company shall pay within 10 business days from the date the relevant audit was completed by the First Auditor, which shall take place within 2 months from the expiry date of the third anniversary of the Completion Date; and
- (e) the remaining balance of RMB297,000,000 (equivalent to approximately HK\$350,460,000) shall be satisfied by the issue of PSCS in Hong Kong dollars within 15 business days from the Completion Date (or such other date as the parties may agree). The principal amount of PSCS will be calculated using the exchange rate quoted by the Hongkong and Shanghai Banking Corporation Limited on the date of issue of PSCS. The terms of PSCS are set out in paragraph headed “Terms of the PSCS” below.

In the event that the audited net profit of the First Subject Business in respect of any of the period mentioned in (b), (c) or (d) above is less than RMB27,000,000, the Company shall not be obliged to pay any amount of the sum mentioned in (b), (c) or (d) above.

### **Conditions precedent**

Completion of the transfer of First Subject Business is subject to, *inter alia*, the fulfillment of the following conditions:

- (a) the Company having conducted a due diligence investigation in respect of the First Subject Business and the Company being satisfied with the results of such due diligence investigation;
- (b) the obtaining of a PRC legal opinion (the form and content of which to the reasonable satisfaction of the Company) in relation to the transaction contemplated under the First Agreement;
- (c) the warranties, guarantees and undertakings given by the First Vendor in the First Agreement are true and accurate at the date of the First Agreement and the First Vendor has performed or complied with such warranties, guarantees and undertakings on or before Completion Date; and

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## LETTER FROM THE BOARD

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- (d) the obtaining of all necessary consents and approvals and executing all necessary documents in respect of the transfer of the First Subject Business from the relevant governmental or regulatory bodies.

The Company and the First Vendor may agree in writing to waive any or all conditions precedent. If the conditions precedent are not fulfilled or waived on or before 31 December 2016 (or such other date as the parties agree in writing), the First Agreement shall be of no effect, subject to the liability of any party to the other in respect of the antecedent breaches of the terms pursuant to the First Agreement.

### **Completion**

Completion of the First Agreement has taken place on 26 April 2016 upon fulfilment of the conditions precedent.

The Company undertakes that it will obtain Shareholders' approval in respect of the Specific Mandate at the EGM and will apply to the Stock Exchange for the approval for the listing of, and permission to deal in, the Conversion Shares. If the said Shareholders' approval and the listing approval cannot be granted within 6 months from the Completion Date (or such other date as the parties may agree), the First Agreement shall be rescinded.

### **Warranties of the First Vendor**

The First Vendor warrants that in respect of each of the period (1) from the Completion Date to the first anniversary date of the Completion Date (both days inclusive); (2) from the first anniversary date to the second anniversary date of the Completion Date (both days inclusive); and (3) from the second anniversary date to the third anniversary date of the Completion Date (both days inclusive):

- (a) the audited revenue of the First Subject Business shall not be less than RMB60,000,000;
- (b) the audited net profit of the First Subject Business shall not be less than RMB27,000,000; and
- (c) the cost of sales shall represent not more than 30% of the total revenue of the First Subject Business.

If the First Vendor shall be unable to fulfill any one of the warranties above, the Company shall be entitled to claim damages against the First Vendor. The First Warrantors guarantee the performance of the above warranties by the First Vendor.

The above warranties of the First Vendor were determined with reference to the historical financial information provided by the First Vendor. The unaudited revenue of the First Vendor for the year ended 31 December 2014 and 2015 were approximately RMB37.3 million and RMB34.1 million respectively. On the assumption that the annual revenue generated from the existing customers of the First Subject Business will maintain steady in light of the historical trend together

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## LETTER FROM THE BOARD

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with new master sales agreements have been entered into between new customers and the First Vendor, the warranted audited revenue was set at RMB60,000,000 in the relevant period. In relation to the warranted net profit of the First Subject Business, the figure was set with reference to a certain percentage of the warranted revenue. As the First Subject Business is in the same industry as the Group, the parties set the warranted net profit according to the Group's net profit rate.

### SECOND AGREEMENT

#### Date

26 April 2016 (after trading hours)

#### Parties

Second Vendor: Shenzhen Da Herong Spice Company Limited\*  
(深圳市大合榮香料實業有限公司)

Purchaser: the Company

Second Warrantors: Mr. Chen Jiliang (陳積良) and Ms. Li Fahui (李發輝), who are the legal and beneficial owners of the Second Vendor

To the best of the Directors' knowledge, information and belief having made all reasonable enquiries, the Second Vendor and the Second Warrantors are Independent Third Parties.

#### Consideration

The consideration for acquiring the Second Subject Business is RMB432,000,000 (equivalent to approximately HK\$509,760,000). As at the Latest Practicable Date, an aggregate amount of RMB35,000,000 (equivalent to approximately HK\$41,300,000) has been paid by the Company to the Second Vendor. The balance of the consideration shall be settled or paid to the Second Vendor (or its nominee(s)) in the following manner:

- (a) RMB124,000,000 (equivalent to approximately HK\$146,320,000) cash shall be paid by the Company within 60 days after the Completion Date;
- (b) RMB10,000,000 (equivalent to approximately HK\$11,800,000) cash shall be paid if the audited net profit of the Second Subject Business for the first year of the Completion Date is not less than RMB27,000,000. The Company shall pay within 10 business days from the date the relevant audit was completed by the Second Auditor which shall take place within 2 months from the expiry date of the first anniversary of the Completion Date;

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## LETTER FROM THE BOARD

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- (c) RMB10,000,000 (equivalent to approximately HK\$11,800,000) cash shall be paid if the audited net profit of the Second Subject Business for the second year of the Completion Date is not less than RMB27,000,000. The Company shall pay within 10 business days from the date the relevant audit was completed by the Second Auditor, which shall take place within 2 months from the expiry date of the second anniversary of the Completion Date;
- (d) RMB10,000,000 (equivalent to approximately HK\$11,800,000) cash shall be paid if the audited net profit of the Second Subject Business for the third year of the Completion Date is not less than RMB27,000,000. The Company shall pay within 10 business days from the date the relevant audit was completed by the Second Auditor, which shall take place within 2 months from the expiry date of the third anniversary of the Completion Date; and
- (e) the remaining balance of RMB243,000,000 (equivalent to approximately HK\$286,740,000) will be satisfied by the issue of PSCS in Hong Kong dollars within 15 business days from the Completion Date (or such other date as the parties may agree). The principal amount of PSCS will be calculated using the exchange rate quoted by the Hong Kong and Shanghai Banking Corporation Limited on the date of issue of PSCS. The terms of PSCS are set out in paragraph headed “Terms of the PSCS” below.

In the event that the audited net profit of the Second Subject Business in respect of any of the period mentioned in (b), (c) or (d) above is less than RMB27,000,000, the Company shall not be obliged to pay any amount of the sum mentioned in (b), (c) or (d) above.

### **Conditions precedent**

Completion of the transfer of Second Subject Business is subject to, *inter alia*, the fulfillment of the following conditions:

- (a) the Company having conducted a due diligence investigation in respect of the Second Subject Business and the Company being satisfied with the results of such due diligence investigation;
- (b) the obtaining of a PRC legal opinion (the form and content of which to the reasonable satisfaction of the Company) in relation to the transaction contemplated under the Second Agreement;
- (c) the warranties, guarantees and undertakings given by the Second Vendor in the Second Agreement are true and accurate at the date of the Second Agreement and the Second Vendor has performed or complied with such warranties, guarantees and undertakings on or before Completion Date; and

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## LETTER FROM THE BOARD

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- (d) the obtaining of all necessary consents and approvals and executing all necessary documents in respect of the transfer of the Second Subject Business from the relevant governmental or regulatory bodies.

The Company and the Second Vendor may agree in writing to waive any or all conditions precedent. If the conditions precedent are not fulfilled or waived on or before 31 December 2016 (or such other date as the parties agree in writing), the Second Agreement shall be of no effect, subject to the liability of any party to the other in respect of the antecedent breaches of the terms pursuant to the Second Agreement.

### **Completion**

Completion of the Second Agreement has taken place on 26 April 2016 upon fulfilment of the conditions precedent.

The Company undertakes that it will obtain Shareholders' approval in respect of the Specific Mandate at the EGM and will apply to the Stock Exchange for the approval for the listing of, and permission to deal in, the Conversion Shares. If the said Shareholders' approval and the listing approval cannot be granted within 6 months from the Completion Date (or such other date as the parties may agree), the Second Agreement shall be rescinded.

### **Warranties of the Second Vendor**

The Second Vendor warrants that in respect of each of the period (1) from the Completion Date to the first anniversary date of the Completion Date (both days inclusive); and (2) from the first anniversary date to the second anniversary date of the Completion Date (both days inclusive); and (3) from the second anniversary date to the third anniversary date of the Completion Date (both days inclusive):

- (a) the audited revenue of the Second Subject Business shall not be less than RMB60,000,000;
- (b) the audited net profit of the Second Subject Business shall not be less than RMB27,000,000; and
- (c) the cost of sales shall represent not more than 30% of the total revenue of the Second Subject Business.

If the Second Vendor shall be unable to fulfill any one of the warranties above, the Company shall be entitled to claim damages against the Second Vendor. The Second Warrantors guarantee the performance of the above warranties by the Second Vendor.

The above warranties of the Second Vendor were determined with reference to the historical financial information provided by the Second Vendor. The unaudited revenue of the Second Vendor for the year ended 31 December 2014 and 2015 were approximately RMB49.1 million and RMB50.8 million respectively. On the assumption that the annual revenue of the Second Subject

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## LETTER FROM THE BOARD

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Business will increase in light of the historical trend, the warranted audited revenue was set at RMB60,000,000 in the relevant period. In relation to the warranted net profit of the Second Subject Business, the figure was set with reference to a certain percentage of the warranted revenue. As the Second Subject Business is in the same industry as the Group, the parties set the warranted net profit according to the Group's net profit rate.

### THIRD AGREEMENT

#### Date

26 April 2016 (after trading hours)

#### Parties

Third Vendor: Guangzhou Fangyuan Spice Company Limited\*  
(廣州市芳源香料有限公司)

Purchaser: the Company

Third Warrantors: Mr. Lin Tengfei (林騰飛) and Ms. Lai Riying (賴日英), who are the legal and beneficial owners of the Third Vendor

To the best of the Directors' knowledge, information and belief having made all reasonable enquiries, the Third Vendor and the Third Warrantors are Independent Third Parties.

#### Consideration

The consideration for acquiring the Third Subject Business is RMB320,000,000 (equivalent to approximately HK\$377,600,000). As at the Latest Practicable Date, an aggregate amount of RMB30,000,000 (equivalent to approximately HK\$35,400,000) has been paid by the Company to the Third Vendor. The balance of the consideration shall be settled or paid to the Third Vendor (or its nominee(s)) in the following manner:

- (a) RMB46,000,000 (equivalent to approximately HK\$54,280,000) cash shall be paid by the Company within 60 days after the Completion Date;
- (b) RMB8,000,000 (equivalent to approximately HK\$9,440,000) cash shall be paid if the audited net profit of the Third Subject Business for the first year of the Completion Date is not less than RMB20,000,000. The Company shall pay within 10 business days from the date the relevant audit was completed by the Third Auditor which shall take place within 2 months from the expiry date of the first anniversary of the Completion Date;

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## LETTER FROM THE BOARD

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- (c) RMB8,000,000 (equivalent to approximately HK\$9,440,000) cash shall be paid if the audited net profit of the Third Subject Business for the second year of the Completion Date is not less than RMB20,000,000. The Company shall pay within 10 business days from the date the relevant audit was completed by the Third Auditor, which shall take place within 2 months from the expiry date of the second anniversary of the Completion Date;
- (d) RMB8,000,000 (equivalent to approximately HK\$9,440,000) cash shall be paid if the audited net profit of the Third Subject Business for the third year of the Completion Date is not less than RMB20,000,000. The Company shall pay within 10 business days from the date the relevant audit was completed by the Third Auditor, which shall take place within 2 months from the expiry date of the third anniversary of the Completion Date; and
- (e) the remaining balance of RMB220,000,000 (equivalent to approximately HK\$259,600,000) will be satisfied by the issue of PSCS in Hong Kong dollars within 15 business days from the Completion Date (or such other date as the parties may agree). The principal amount of PSCS will be calculated using the exchange rate quoted by the Hong Kong and Shanghai Banking Corporation Limited on the date of issue of PSCS. The terms of PSCS are set out in paragraph headed “Terms of the PSCS” below.

In the event that the audited net profit of the Third Subject Business in respect of any of the period mentioned in (b), (c) or (d) above is less than RMB20,000,000, the Company shall not be obliged to pay any amount of the sum mentioned in (b), (c) or (d) above.

### **Conditions precedent**

Completion of the transfer of Third Subject Business is subject to, *inter alia*, the fulfillment of the following conditions:

- (a) the Company having conducted a due diligence investigation in respect of the Third Subject Business and the Company being satisfied with the results of such due diligence investigation;
- (b) the obtaining of a PRC legal opinion (the form and content of which to the reasonable satisfaction of the Company) in relation to the transaction contemplated under the Third Agreement;
- (c) the warranties, guarantees and undertakings given by the Third Vendor in the Third Agreement are true and accurate at the date of the Third Agreement and the Third Vendor has performed or complied with such warranties, guarantees and undertakings on or before Completion Date; and



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## LETTER FROM THE BOARD

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- (d) the obtaining of all necessary consents and approvals and executing all necessary documents in respect of the transfer of the Third Subject Business from the relevant governmental or regulatory bodies.

The Company and the Third Vendor may agree in writing to waive any or all conditions precedent. If the conditions precedent are not fulfilled or waived on or before 31 December 2016 (or such other date as the parties agree in writing), the Third Agreement shall be of no effect, subject to the liability of any party to the other in respect of the antecedent breaches of the terms pursuant to the Third Agreement.

### **Completion**

Completion of the Third Agreement has taken place on 26 April 2016 upon fulfilment of the conditions precedent.

The Company undertakes that it will obtain Shareholders' approval in respect of the Specific Mandate at the EGM and will apply to the Stock Exchange for the approval for the listing of, and permission to deal in, the Conversion Shares. If the said Shareholders' approval and the listing approval cannot be granted within 6 months from the Completion Date (or such other date as the parties may agree), the Third Agreement shall be rescinded.

### **Warranties of the Third Vendor**

The Third Vendor warrants that in respect of each of the period (1) from the Completion Date to the first anniversary date of the Completion Date (both days inclusive); (2) from the first anniversary date to the second anniversary date of the Completion Date (both days inclusive); and (3) from the second anniversary date to the third anniversary date of the Completion Date (both days inclusive):

- (a) the audited revenue of the Third Subject Business shall not be less than RMB45,000,000;
- (b) the audited net profit of the Third Subject Business shall not be less than RMB20,000,000; and
- (c) the cost of sales shall represent not more than 30% of the total revenue of the Third Subject Business.

If the Third Vendor shall be unable to fulfill any one of the warranties above, the Company shall be entitled to claim damages against the Third Vendor. The Third Warrantors guarantee the performance of the above warranties by the Third Vendor.

The above warranties of the Third Vendor were determined with reference to the historical financial information provided by the Third Vendor. The unaudited revenue of the Third Vendor for the year ended 31 December 2014 and 2015 were approximately RMB24.7 million and RMB36.2 million respectively. On the assumption that the annual revenue of the Third Subject Business will increase in light of the historical trend, the warranted audited revenue was set at RMB45,000,000 in

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## LETTER FROM THE BOARD

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the relevant period. In relation to the warranted net profit of the Third Subject Business, the figure was set with reference to a certain percentage of the warranted revenue. As the Third Subject Business is in the same industry as the Group, the parties set the warranted net profit according to the Group's net profit rate.

### FOURTH AGREEMENT

#### Date

26 April 2016 (after trading hours)

#### Parties

Fourth Vendor: Hainan Central South Island Spice and Fragrance Company Limited\*  
(海南中南島香精香料有限公司)

Purchaser: the Company

Fourth Warrantor: Mr. Shao Wanfeng (邵萬峰), who is the legal and beneficial owner of the Fourth Vendor

To the best of the Directors' knowledge, information and belief having made all reasonable enquiries, the Fourth Vendor and the Fourth Warrantor are Independent Third Parties.

#### Consideration

The consideration for acquiring the Fourth Subject Business is RMB368,000,000 (equivalent to approximately HK\$434,240,000). As at the Latest Practicable Date, an aggregate amount of RMB30,000,000 (equivalent to approximately HK\$35,400,000) has been paid by the Company to the Fourth Vendor. The balance of the consideration shall be settled or paid to the Fourth Vendor (or its nominee(s)) in the following manner:

- (a) RMB95,600,000 (equivalent to approximately HK\$112,808,000) cash shall be paid by the Company within 60 days after the Completion Date;
- (b) RMB20,000,000 (equivalent to approximately HK\$23,600,000) cash shall be paid if the audited net profit of the Fourth Subject Business for the first year of the Completion Date is not less than RMB23,000,000. The Company shall pay within 15 business days from the date the relevant audit was completed by the Fourth Auditor which shall take place within 1 month from the expiry date of the first anniversary of the Completion Date;

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## LETTER FROM THE BOARD

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- (c) RMB20,000,000 (equivalent to approximately HK\$23,600,000) cash shall be paid if the audited net profit of the Fourth Subject Business for the second year of the Completion Date is not less than RMB23,000,000. The Company shall pay within 15 business days from the date the relevant audit was completed by the Fourth Auditor, which shall take place within 1 month from the expiry date of the second anniversary of the Completion Date; and
- (d) the remaining balance of RMB202,400,000 (equivalent to approximately HK\$238,832,000) will be satisfied by the issue of PSCS in Hong Kong dollars within 15 business days from the Completion Date (or such other date as the parties may agree). The principal amount of PSCS will be calculated using the exchange rate quoted by the Hong Kong and Shanghai Banking Corporation Limited on the date of issue of PSCS. The terms of PSCS are set out in paragraph headed “Terms of the PSCS” below.

In the event that the audited net profit of the Fourth Subject Business in respect of any of the period mentioned in (b) or (c) above is less than RMB23,000,000, the amount of shortfall shall be deducted from the RMB20,000,000 as mentioned in (b) or (c) (as the case may be) and the Company shall pay the balance to the Fourth Vendor.

### **Conditions precedent**

Completion of the transfer of Fourth Subject Business is subject to, *inter alia*, the fulfillment of the following conditions:

- (a) the Company having conducted a due diligence investigation in respect of the Fourth Subject Business and the Company being satisfied with the results of such due diligence investigation;
- (b) the obtaining of a PRC legal opinion (the form and content of which to the reasonable satisfaction of the Company) in relation to the transaction contemplated under the Fourth Agreement;
- (c) the warranties, guarantees and undertakings given by the Fourth Vendor in the Fourth Agreement are true and accurate at the date of the Fourth Agreement and the Fourth Vendor has performed or complied with such warranties, guarantees and undertakings on or before Completion Date; and
- (d) the obtaining of all necessary consents and approvals and executing all necessary documents in respect of the transfer of the Fourth Subject Business from the relevant governmental or regulatory bodies.

The Company and the Fourth Vendor may agree in writing to waive any or all conditions precedent. If the conditions precedent are not fulfilled or waived on or before 31 December 2016 (or such other date as the parties agree in writing), the Fourth Agreement shall be of no effect,

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## LETTER FROM THE BOARD

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subject to the liability of any party to the other in respect of the antecedent breaches of the terms pursuant to the Fourth Agreement. The Fourth Vendor shall be entitled to unilaterally terminate the Fourth Agreement at any time before the conditions precedent are fulfilled or waived.

### **Completion**

Completion of the Fourth Agreement has taken place on 26 April 2016 upon fulfillment of the conditions precedent.

The Company undertakes that it will obtain Shareholders' approval in respect of the Specific Mandate at the EGM and will apply to the Stock Exchange for the approval for the listing of, and permission to deal in, the Conversion Shares. If the said Shareholders' approval and the listing approval cannot be granted within 6 months from the Completion Date (or such other date as the parties may agree), the Fourth Agreement shall be rescinded.

### **Warranties of the Fourth Vendor**

The Fourth Vendor warrants that in respect of each of the period (1) from the Completion Date to the first anniversary date of the Completion Date (both days inclusive); and (2) from the first anniversary date to the second anniversary date of the Completion Date (both days inclusive):

- (a) the audited revenue of the Fourth Subject Business shall not be less than RMB50,000,000;
- (b) the audited net profit of the Fourth Subject Business shall not be less than RMB23,000,000; and
- (c) the cost of sales shall represent not more than 35% of the total revenue of the Fourth Subject Business.

If the Fourth Vendor shall be unable to fulfill any one of the warranties above, the Company shall be entitled to claim damages against the Fourth Vendor. The Fourth Warrantor guarantees the performance of the above warranties by the Fourth Vendor.

The above warranties of the Fourth Vendor were determined with reference to the historical financial information provided by the Fourth Vendor. The unaudited revenue of the Fourth Vendor for the year ended 31 December 2014 and 2015 were approximately RMB37.8 million and RMB45.0 million respectively. On the assumption that the annual revenue of the Fourth Subject Business will increase in light of the historical trend, the warranted audited revenue was set at RMB50,000,000 in the relevant period. In relation to the warranted net profit of the Fourth Subject Business, the figure was set with reference to a certain percentage of the warranted revenue. As the Fourth Subject Business is in the same industry as the Group, the parties set the warranted net profit according to the Group's net profit rate.

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## LETTER FROM THE BOARD

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### Warranty of the Company

The Company warrants that if the PSCS cannot be converted into Conversion Shares within 7 days after the second anniversary of the issue date of the PSCS upon exercise of the conversion rights, the Company shall pay such amount equivalent to the then market value of the PSCS to the Fourth Vendor or the Fourth Warrantor. The Company will appoint independent valuer in determining the then market value of the PSCS in such event. Given that (i) the basis for determining the considerations of the Subject Businesses are the same; and (ii) independent valuation will be further conducted, the Company considers such warranty is fair and reasonable.

### SUBJECT MATTER TO BE ACQUIRED FOR THE BUSINESS TRANSFERS

The Vendors are manufacturers of tobacco flavors in the PRC with established sales network and business relationships with their respective business partners in different regions in the PRC. The customers of the Vendors are tobacco manufacturing companies with various lines of products, each line distinguished by its unique flavor. The formula for each flavor was developed by the respective Vendors which is unique and is not known to its competitor.

Under the Business Transfers, the Company will acquire the Subject Businesses from the Vendors, which consist of (i) the formulas used or owned by the Vendors; (ii) the relevant contracts entered into between the Vendors and their customers together with the information of the respective customers; (iii) the relevant contracts entered into between the Vendors and their suppliers together with the information of the respective suppliers; and (iv) any matter relevant to the continued operation of the Subject Businesses.

The terms of the contracts entered into by the Vendors with their respective customers and suppliers are of customary practice. Such contracts are master agreements stating, *inter alia*, the unit price of each product, quality standards of the products, logistics arrangement and credit terms. The customers shall place orders with the Vendors pursuant to the master agreements for the desired flavor and the products which will be delivered by the Vendors to the customers. The average price per kilogram of the products of each of the First Vendor, the Second Vendor, the Third Vendor and the Fourth Vendor is approximately RMB368.00, RMB272.08, RMB515.28 and RMB144.45 respectively. The products shall comply with the standards set by the relevant tobacco regulation authorities of the PRC. Before delivery of goods, the Vendors shall produce quality inspection reports of the products to the customers. The Vendors are usually responsible for the arrangement of logistics of goods to be delivered to the customers. The risk of goods shall be borne by the Vendors before the goods are delivered to the customers. The usual credit term is 180 days.

The First Subject Business involves 40 formulas with customers located in Anhui, Yunnan, Sichuan and Henan Provinces who have placed orders of not less than RMB34 million in aggregate in the financial year ended 2015. The Second Subject Business involves 50 formulas with customers located in Anhui, Liaoning and Heilongjiang Provinces and Beijing who have placed orders of not less than RMB50.7 million in aggregate in the financial year ended 2015. The Third Subject Business involves 33 formulas with customers located in Guangxi, Guizhou and Hunan Provinces who have placed orders of not less than RMB36.1 million in aggregate in the financial

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## LETTER FROM THE BOARD

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year ended 2015. The Fourth Subject Business involves 30 formulas with customers located in Hainan, Guangdong, Shandong and Yunnan Provinces who have placed orders of not less than RMB45 million in aggregate in the financial year ended 2015.

The value of the formulas, sales network and business relationships of the Subject Businesses to be acquired commensurate with the revenue of the Subject Businesses. For details of the said revenue, please refer to the heading “Financial Information of the Subject Businesses” below.

As the Company has its own production facilities, no tangible assets (which include but not limited to fixed assets, office, production facilities and vehicles) of the Vendors will be acquired by the Company in the Business Transfers.

### **BASIS OF CONSIDERATION**

The amounts of consideration of the Business Transfers were determined based on arm’s length negotiations between the Vendors and the Company with reference to, *inter alia*, the profit guarantee of the Vendors and Warrantors in respect of the respective Subject Businesses and the revenue of the Subject Businesses.

By acquiring the Subject Businesses including the formula, sales channels and business relationships established by the Vendors, leveraging with the Company’s existing production capacity for flavor products, the Company does not need to incur additional fixed costs and administrative expenses to operate the Subject Businesses. As such, the Company believes that the profit guarantee of the Vendors and Warrantors shall be determined with reference to the Company’s gross profit margin of 48.9% for the year 2015, which is comparable to the net profit margin of the guaranteed profit of 45%.

In determining the consideration, without an exhaustive list of comparable companies listed on the Stock Exchange which are engaged in similar business as the Subject Businesses, the Company took into account its own historical price to earnings ratio during the period from January 2015 to the date of the Announcement, which ranged from a multiple of approximately 6 to 24 and the average multiple being approximately 16 (“**Average PE**”). The price to earnings ratio of the respective consideration of the Business Transfers and the profit guarantees of each Business Transfers is 16 which is similar to the Average PE.

Without overlapping with the existing business relationships of the Company and flavor formula, the Subject Businesses will broaden the revenue bases of the Company. The Directors believe that the terms of the Agreements and the transactions contemplated thereunder, including the profit guarantees and the considerations of the Business Transfers, are fair and reasonable and in the interests of the Shareholders as a whole.

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## LETTER FROM THE BOARD

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### INFORMATION OF THE VENDORS AND WARRANTORS

To the Directors' best knowledge, information and belief, the First Warrantors, namely Mr. Shao Fafei and Ms. Huang Yuequan, have been engaged in the flavors and fragrances related industry for over 20 years. Mr. Shao Fafei is the spouse of Ms. Huang Yuequan. In 1990, Mr. Shao set up the First Vendor which supplies different fragrances and flavors for cigarettes. The First Vendor was awarded ISO 9001:2008 certification and its products are sold and distributed in different parts of China. As the First Vendor and the First Warrantors are in the same industry as the Company, Mr. Wang Ming Fan, the chairman and an executive director of the Company, has known the First Warrantors and the First Vendor for over 10 years. The First Vendor and the First Warrantors were introduced to the Company by Mr. Wang Ming Fan.

To the Directors' best knowledge, information and belief, the Second Warrantors, namely Mr. Chen Jiliang and Ms. Li Fahui, have been engaged in the flavors and fragrances related industry for over 20 years. In 1994, Mr. Chen set up the second Vendor under its former name Shenzhen Shi Daherong Trading Company\* (深圳市大合榮貿易有限公司). The Second Vendor focused on the trading of flavors and fragrances for cigarettes in the past 20 years. The Second Vendor was awarded ISO 9002 certification and the distribution network of its products covers different parts of China. As the Second Vendor and the Second Warrantors are engaged in the same industry as the Company, Mr. Wang Ming Fan has known the Second Warrantors and the Second Vendor for over 10 years. The Second Vendor and the Second Warrantors were introduced to the Company by Mr. Wang Ming Fan.

To the Directors' best knowledge, information and belief, the Third Warrantors, namely Mr. Lin Tengfei and Ms. Lai Riying, have been engaged in the flavors and fragrances related industry for over 10 years. Mr. Lin Tengfei is the spouse of Ms. Lai Riying. In 2006, Mr. Lin set up the Third Vendor to engage in the sale of flavors and fragrances for cigarettes related business. As the Third Vendor and the Third Warrantors are engaged in the same industry as the Company, Mr. Wang Ming Fan has known the Third Warrantors and the Third Vendor for over 10 years. The Third Vendor and the Third Warrantors were introduced to the Company by Mr. Wang Ming Fan.

To the Directors' best knowledge, information and belief, the Fourth Warrantor, Mr. Shao Wanfeng, obtained a bachelor degree in business administrations from the Beijing Union University (北京聯合大學) in 2011. Mr. Shao Wanfeng was appointed as the legal representative and general manager of the Fourth Vendor in 2013. The Fourth Vendor was set up in 1998 and its office is based in Haikou, Hainan Province. The principal business activity of the Fourth Vendor is trading of flavors and fragrances for cigarettes in different parts of China. As the Fourth Vendor engaged in the same industry as the Company, Mr. Wang Ming Fan has known the Fourth Vendor for over 10 years. The Fourth Vendor was introduced to the Company by Mr. Wang Ming Fan.

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## LETTER FROM THE BOARD

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### TERMS OF THE PSCS

The PSCS will be issued by the Company to the Vendors (or their nominees), respectively, upon completion of the Agreements pursuant to the terms and conditions under the respective Agreements. The principal terms of the PSCS are summarized as follows:

Issue price	:	100% of the principal amount of the PSCS
Form	:	The PSCS will be issued in registered form
Maturity date	:	There is no maturity date
Status and Subordination	:	The PSCS constitutes direct, unsecured and subordinated obligations of the Company and rank <i>pari passu</i> without any preference or priority among themselves.

In the event of the winding-up of the Company, the rights and claims of the holder(s) of the PSCS shall:

- (a) rank ahead of those persons whose claims are in respect of any class of share capital of the Company; and
- (b) be subordinated in right of payment to the claims of all other present and future senior and subordinated creditors of the Company.

Distribution	:	The PSCS does not confer a right to receive distribution(s) (the “ <b>Distribution</b> ”).
Conversion Price	:	Initially HK\$3.00 per Conversion Share, subject to adjustment as provided for in the terms of the PSCS, including but not limited to an alteration to the nominal amount of the Shares as a result of consolidation, subdivision or reclassification, capitalisation of profits or reserves, capital distributions, rights issues or issue of options, warrants or other rights to subscribe for, purchase or otherwise acquire any Shares.

For details of the adjustment to the Conversion Price, please refer to the Appendix to this circular.



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## LETTER FROM THE BOARD

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- Conversion Shares : Number of Conversion Shares to be allotted and issued by the Company upon full conversion of the PSCS at the initial Conversion Price to:
- (a) the First Vendor (or their nominees) is 116,820,000;
  - (b) the Second Vendor (or their nominees) is 95,580,000;
  - (c) the Third Vendor (or their nominees) is 86,533,333; and
  - (d) the Fourth Vendor (or their nominees) is 79,610,667
- Conversion period : The holder(s) of PSCS may convert the PSCS into Conversion Shares after the issue date of PSCS or if the PSCS is requested to be redeemed by the Company, the holder(s) of PSCS may exercise the conversion right until any date before the seventh day of the date of redemption is determined (subject to the relevant terms as provided in the terms of the PSCS)
- Restrictions on Conversion : No conversion right shall be exercised by the holder of the PSCS (or when it is exercised by virtue of a conversion notice having been given, the Company shall not be obliged to issue any Conversion Shares but may treat that conversion notice as invalid) if:
- (i) the minimum public float of the issued share capital of the Company as enlarged by the issue of the Conversion Shares cannot be maintained in accordance with the Listing Rules; or
  - (ii) such exercise by the holder of the PSCS and parties acting in concert (within the meaning ascribed to it under the Takeovers Code) with it triggers a mandatory offer under Rule 26 of the Takeovers Code on the part of the holder of the PSCS and parties acting in concert with it.

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## LETTER FROM THE BOARD

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- Fractional Shares : Fractions of Shares will not be issued on Conversion and no cash adjustments will be made in respect thereof. Notwithstanding the foregoing, in the event of a consolidation or re-classification of Shares by operation of law or otherwise occurring after the date of constitution of the PSCS, the Company will upon Conversion pay in cash a sum equal to such portion of the principal amount of the PSCS represented by the certificate deposited in connection with the exercise of conversion rights as corresponds to any fraction of a Share not issued as aforesaid if such sum exceeds HK\$10
- Voting : The holder(s) of PSCS will not be entitled to receive notice of, attend or vote at general meetings of the Company by reason only of it being a PSCS holder
- Transferability : Subject to the terms of the PSCS, the PSCS may be transferred by delivery of the certificate issued in respect of those PSCS, with the form of transfer in the agreed form as set out in the terms of the PSCS duly completed and signed, to the registered office of the Company. No transfer of the PSCS will be valid unless and until (a) the Company has provided its written consent to the transfer (such consent shall not be unreasonably withheld); and (b) such transfer has been entered on the register of PSCS holder(s)

***For the First Agreement, the Second Agreement and the Third Agreement***

Notwithstanding the foregoing, the PSCS holder(s) may only transfer the PSCS to a third party in the following manner:

- (a) 30% of the PSCS from the date of issue of PSCS until the completion of audit for the first financial year of the date of issue of PSCS;
- (b) 35% of the PSCS after the completion of audit for the second financial year of the date of issue of PSCS; and

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## LETTER FROM THE BOARD

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- (c) 35% of the PSCS after the completion of audit for the third financial year from the date of issue of PSCS

unless the PSCS holder(s) obtains prior written consent from the Company for which case the certificate is freely transferable

### *For the Fourth Agreement*

Notwithstanding the foregoing, the PSCS holder(s) shall not transfer the PSCS to a third party within the first two financial years of the date of issue of PSCS unless the PSCS holder(s) obtains prior written consent from the Company.

- Redemption rights : The PSCS may be redeemed at the option of the Company, at 100% or 50% of the principal amount of the PSCS each time by serving PSCS holder(s) 5 business day redemption notice
- Listing : No application will be made for the listing of the PSCS on the Stock Exchange. An application will be made by the Company to the Listing Committee for the listing of, and permission to deal in, the Conversion Shares

### **Conversion Shares**

The exact number of Conversion Shares which will be allotted and issued by the Company upon full conversion of the PSCS at the initial Conversion price had yet been determined as at the Latest Practicable Date since the exchange rate to be adopted for calculating the principal amount of the PSCS in Hong Kong dollars shall be the exchange rate quoted by the Hong Kong and Shanghai Banking Corporation Limited on the date of issue of the PSCS. The number of Conversion Shares can only be ascertained when the principal amount of the PSCS in Hong Kong dollars is fixed. According to the Agreements, the principal amount of PSCS to be issued is RMB962,400,000, as such it is estimated that 378,544,000 Conversion Shares will be issued upon full conversion of PSCS.

Assuming there is no change in the issued share capital of the Company from the date of this circular and up to the date of allotment and issue of the Conversion Shares, the aggregate number of the Conversion Shares represents:

- (a) approximately 56.55% of the issued share capital of the Company as at the Latest Practicable Date; and

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## LETTER FROM THE BOARD

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- (b) approximately 36.12% of the issued share capital of the Company as enlarged by the allotment and issue of the Conversion Shares upon full conversion of the PSCS at the initial Conversion Price.

The Conversion Shares, when allotted and issued, will rank *pari passu* in all respects among themselves, and with the Shares then in issue on the day of allotment and issue of the Conversion Shares, and be entitled to all dividends and other rights attached to the Shares from the date of allotment.

The Conversion Shares will be allotted and issued pursuant to the Specific Mandate to be sought at the EGM.

### **Conversion Price**

The initial Conversion Price of HK\$3.00 per Conversion Share was determined after arm's length negotiations between the Company and the respective Vendors, which represents:

- (a) a premium of 10.7% over the closing price of HK\$2.74 per Share as quoted on the Stock Exchange on the Latest Practicable Date;
- (b) a premium of 17.6% over the closing price of HK\$2.55 per Share as quoted on the Stock Exchange on the date of the Announcement;
- (c) a premium of approximately 16% over the average closing price of HK\$2.586 per Share as quoted on the Stock Exchange for the last 5 consecutive trading days up to and including the date of the Announcement; and
- (d) a premium of 19.5% over the net asset value of approximately RMB2.13 (equivalent to approximately HK\$2.51 per Share as at 31 December 2015).

### **THE SPECIFIC MANDATE**

The issue of PSCS and the allotment and issue of the Conversion Shares shall be granted under the Specific Mandate and are subject to approval by the Shareholders at the EGM.

### **APPLICATION FOR LISTING**

No application will be made by the Company to the Stock Exchange for the listing of the PSCS. Application will be made by the Company to the Listing Committee of the Stock Exchange for the listing of, and permission to deal in, the Conversion Shares.

## LETTER FROM THE BOARD

### EFFECT OF THE BUSINESS TRANSFERS ON THE SHAREHOLDING STRUCTURE

Assuming there is no change in the issued share capital of, and the shareholding in, the Company from the date of this circular other than the allotment and issue of Conversion Shares upon conversion of the PSCS pursuant to the Agreements, the shareholding structure of the Company (a) as at the date of this circular; (b) upon issuance of the PSCS; and (c) for illustrative purpose only, immediately after completion of the Agreements (assuming full conversion of the PSCS at the initial Conversion Price) will be as follows:

Shareholders	As at the date of this circular		Upon issue of PSCS		After the issue of Conversion Shares upon full exercise of PSCS	
	Number of Shares	Approximate %	Number of Shares	Approximate %	Number of Shares	Approximate %
Creative China Limited (Note 1)	330,562,056	49.38	330,562,056	49.38	330,562,056	31.54
Full Ashley Enterprises Limited (Note 2)	18,333,333	2.74	18,333,333	2.74	18,333,333	1.75
Wang Ming Fan (Note 3)	67,846,938	10.14	67,846,938	10.14	67,846,938	6.47
First Vendor	—	—	—	—	116,820,000	11.15
<i>Public</i>						
Second Vendor	—	—	—	—	95,580,000	9.12
Third Vendor	—	—	—	—	86,533,333	8.26
Fourth Vendor	—	—	—	—	79,610,667	7.60
Other public shareholders	<u>252,660,570</u>	<u>37.74</u>	<u>252,660,570</u>	<u>37.74</u>	<u>252,660,570</u>	<u>24.11</u>
Total	<u>669,402,897</u>	<u>100.0</u>	<u>669,402,897</u>	<u>100.0</u>	<u>1,047,946,897</u>	<u>100.0</u>

*Notes:*

- (1) As at the Latest Practicable Date, Creative China Limited is owned as to 41.19% by Mr. Wang Ming Fan, as to 28.11% by Mr. Wong Ming Bun (a former director of the Company), as to 19.87% by Mr. Wang Ming You (a former director of the Company), as to 6.89% by Mr. Qian Wu and as to 3.94% by Mr. Li Qing Long. Mr. Wang Ming Fan, Mr. Qian Wu and Mr. Li Qing Long were Directors of the Company and also directors of Creative China Limited.
- (2) As at the Latest Practicable Date, Full Ashley Enterprises Limited is a private company which is wholly-owned by Mr. Wang Ming Fan.
- (3) Mr. Wang Ming Fan is the chairman and chief executive officer of the Company.

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## LETTER FROM THE BOARD

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### FINANCIAL INFORMATION OF THE SUBJECT BUSINESSES

The unaudited revenue and net profits (both before and after taxation) of the Subject Businesses for each of the two financial years ended 31 December 2014 and 2015 are set out below:

	<b>2014</b> <i>(RMB'000)</i>	<b>2015</b> <i>(RMB'000)</i>
Revenue:		
First Subject Business	37,314	34,064
Second Subject Business	49,108	50,784
Third Subject Business	24,742	36,183
Fourth Subject Business	37,750	45,031
Net Profit (before taxation):		
First Subject Business	305	264
Second Subject Business	426	673
Third Subject Business	130	332
Fourth Subject Business	130	26
Net Profit (after taxation):		
First Subject Business	227	214
Second Subject Business	388	505
Third Subject Business	101	239
Fourth Subject Business	130	26

As no tangible assets and liabilities will be acquired from the Vendors, therefore the net asset value of the Subject Businesses cannot be provided.

### REASONS FOR THE BUSINESS TRANSFERS

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.

The Company intends to further expand its business in the manufacturing of tobacco flavor, with a view to broadening the Group's revenue source, enhancing the performance of the Group, creating value for the Shareholders and increasing Shareholders' return. The Board believes that the Business Transfers are consistent with the development strategy of the Company. The Directors are of the view that the Subject Businesses will contribute positively to the financial performance and will enlarge the income sources of the Group in light of the revenue and profit guarantee provided by the Vendors.

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## LETTER FROM THE BOARD

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The Directors consider that the Agreements are entered into after arm's length negotiation between the Company and the Vendors and the terms therein are on normal commercial terms and the Business Transfers are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

### **LISTING RULES IMPLICATIONS ON THE BUSINESS TRANSFERS**

As the applicable percentage ratios calculated pursuant to Rule 14.07 of the Listing Rules in respect of each of the First Agreement, Second Agreement, Third Agreement and Fourth Agreement is more than 5% but less than 25%, each of the First Transfer, Second Transfer, Third Transfer and Fourth Transfer constitutes a discloseable transaction of the Company and is exempted from independent shareholders' approval requirement but are subject to the reporting and announcement requirements under Chapter 14 of the Listing Rules.

The Directors are of the view that the First Agreement, Second Agreement, Third Agreement and Fourth Agreement are not required to be aggregated pursuant to Rule 14.23A of the Listing Rules as to the best knowledge, information and belief of the Directors having made all reasonable enquiries, the Vendors are not the same person and Vendors and their ultimate beneficial owners are not connected or otherwise associated with each other. Each Agreement was negotiated separately and there is no business dealings between each of the Subject Businesses. The Group has been supplying tobacco flavours to customers, the Subject Businesses do not constitute any new business to the Group but serve to expand the relevant segment of the Group's existing business.

The Company will seek approval for, among other things, the issuance of the Conversion Shares under the Specific Mandate from the Shareholders at the EGM. To the best of the Directors' knowledge, information and belief having made all reasonable enquires, no Shareholder is required to abstain from voting on the resolutions to be proposed at the EGM.

### **PROPOSED INCREASE IN AUTHORISED SHARE CAPITAL**

As at the Latest Practicable Date, the current authorised share capital of the Company is HK\$80,000,000 divided into 800,000,000 Shares of HK\$0.10 each, of which 669,402,897 Shares are in issue and 130,597,103 Shares are outstanding as at the date of this circular.

The Board proposes to increase the authorised share capital of the Company from HK\$80,000,000 (divided into 800,000,000 Shares) to HK\$160,000,000 (divided into 1,600,000,000 Shares) by the creation of an additional 800,000,000 Shares, which will rank *pari passu* in all respects with the existing Shares.

The Increase in Authorised Share Capital is conditional upon the passing of an ordinary resolution by the Shareholders at the EGM to approve the Increase in Authorised Share Capital.

At the last annual general meeting of the Company held on 13 May 2016, the Company was granted a general mandate to issue an amount not exceeding 133,880,579 Shares, representing 20% of the aggregate nominal amount of the share capital of the Company in issue as at the Latest

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## LETTER FROM THE BOARD

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Practicable Date. This coupled with the number of Shares to be issued under the outstanding Share Options carrying rights to subscribe for an aggregate of 29,025,100 Shares as at the date of this announcement and a total of 378,544,000 Conversion Shares to be issued under the PSCS if they are fully converted, the issued share capital will exceed the existing outstanding authorized capital of the Company and hence approval from the Shareholders regarding the Increase in Authorised Share Capital is sought.

### **THE EGM AND PROXY ARRANGEMENT**

The EGM will be held at Jasmine Room, Best Western Plus Hotel Hong Kong, 308 Des Voeux Road West, Hong Kong on 15 July 2016 at 11:00 a.m. for the purpose of considering and, if thought fit, approving the ordinary resolutions in respect of the Agreements and the transactions contemplated thereunder, including the issue of the PSCS under the Specific Mandate and the Increase in Authorised Share Capital.

A notice convening the EGM to be held at Jasmine Room, Best Western Plus Hotel Hong Kong, 308 Des Voeux Road West, Hong Kong on 15 July 2016 at 11:00 a.m. is set out on pages EGM-1 to EGM-4 of this circular.

A form of proxy for use at the EGM is enclosed with this circular. Such form of proxy is also published on the website of the Stock Exchange ([www.hkexnews.hk](http://www.hkexnews.hk)). Whether or not you are able to attend the EGM, you are requested to complete and return the accompanying form of proxy in accordance with the instructions printed thereon as soon as possible and in any event not less than 48 hours before the time appointed for the holding of the EGM (or any adjournment thereof) to the office of the Company's branch share registrar in Hong Kong, Tricor Investor Services Limited at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong. Completion and return of the form of proxy will not preclude you from attending and voting in person at the EGM or any adjournment thereof should you so wish.

To the best of the Directors' knowledge, information and belief having made all reasonable enquiries, no Director or Shareholder has a material interest in the Agreements and the transactions contemplated thereunder, including the proposed grant of the Specific Mandate to issue the PSCS and the Increase in Authorised Share Capital and accordingly no Shareholder is required to abstain from voting on the resolution(s) to be proposed at the EGM.

### **VOTING BY WAY OF POLL**

In accordance with Rule 13.39(4) of the Listing Rules, any vote of shareholders at a general meeting must be taken by poll. Accordingly, the voting on all resolutions at the EGM will be conducted by way of poll.



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## LETTER FROM THE BOARD

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### 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.

### RECOMMENDATION

The Board considers that the Business Transfers, the issue of PSCS and the Increase in Authorised Share Capital are fair and reasonable and in the best interests of the Company and the Shareholders as a whole. Accordingly, the Board recommends the Shareholders to vote in favor of the resolution as set out in the notice of EGM.

Yours faithfully,  
For and on behalf of the Board  
**China Flavors and Fragrances Company Limited**  
**Wang Ming Fan**  
*Chairman*

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**APPENDIX      ADJUSTMENTS TO THE CONVERSION PRICE OF THE PSCS**

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*For the purpose of this appendix, the following expressions have the following meanings unless the context requires otherwise:*

- “Capital Distribution” includes cash or distribution of assets in specie by the Company and for any financial period any dividend paid or reserved (whenever paid and however described) will be regarded as capital distribution
- “Current Market Price” in respect of a Share on a particular date, the average of the closing price for the five consecutive trading days ending on that day
- “Fair Market Value” with respect to any assets, security, option, warrants or other right on any date, the fair market value of that asset, security, option, warrant or other right as determined by an Independent financial adviser; provided that: (i) the fair market value of a cash dividend paid or to be paid per Share shall be the amount of such cash dividend per Share determined as at the date of announcement of such dividend; and (ii) where options, warrants or other rights are publicly traded in a market of adequate liquidity (as determined by such Independent financial adviser) the fair market value of such options, warrants or other rights shall equal the arithmetic mean of the daily closing prices of such options, warrants or other rights during the period of five trading days on the relevant market commencing on the first such trading day on which such options, warrants or other rights are publicly traded
- “Relevant Cash Dividend” means any cash dividend declared by the Company
- “Scrip Dividend” any Shares issued in lieu of any Relevant Cash Dividend being a dividend which the Shareholders concerned would or could otherwise have received (and for the avoidance of doubt, to the extent that an adjustment is made under the terms of the PSCS in respect of the Relevant Cash Dividend, no adjustment is to be made for the amount by which the Current Market Price of the Shares exceeds the Relevant Cash Dividend or part thereof for which an adjustment is already made under the terms of the PSCS)

The Conversion Price will be subject to adjustment in the following events:

(a) *Consolidation, Subdivision or Reclassification:*

If and whenever there shall be an alteration to the nominal value of the Shares as a result of consolidation, subdivision or reclassification, the Conversion Price shall be adjusted by multiplying the Conversion Price in force immediately before such alteration by the following fraction:

$$\frac{A}{B}$$

where:

A is the nominal amount of one Share immediately after such alteration; and

B is the nominal amount of one Share immediately before such alteration.

Such adjustment shall become effective on the date the alteration takes effect.

(b) *Capitalisation of Profits or Reserves:*

(i) If and whenever the Company shall issue any Shares credited as fully paid to the Shareholders by way of capitalisation of profits or reserves including, Shares paid up out of distributable profits or reserves and/or share premium account issued (except any Scrip Dividend) and which would not have constituted an Capital Distribution, the Conversion Price shall be adjusted by multiplying the Conversion Price in force immediately before such issue by the following fraction:

$$\frac{A}{B}$$

where:

A is the aggregate nominal amount of the issued Shares immediately before such issue;  
and

B is the aggregate nominal amount of the issued Shares immediately after such issue.

Such adjustment shall become effective on the date of issue of such Shares or if a record date is fixed therefor, immediately after such record date.

(ii) In the case of an issue of Shares by way of a Scrip Dividend where the Current Market Price of such Shares exceeds the amount of the Relevant Cash Dividend or the relevant part thereof and which would not have constituted an Capital

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**APPENDIX      ADJUSTMENTS TO THE CONVERSION PRICE OF THE PSCS**

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Distribution, the Conversion Price shall be adjusted by multiplying the Conversion Price in force immediately before the issue of such Shares by the following fraction:

$$\frac{A + B}{A + C}$$

where:

A is the aggregate nominal amount of the issued Shares immediately before such issue;

B is the aggregate nominal amount of Shares issued by way of such Scrip Dividend multiplied by a fraction of which: (i) the numerator is the amount of the whole, or the relevant part, of the Relevant Cash Dividend; and (ii) the denominator is the Current Market Price; and

C is the aggregate nominal amount of Shares issued by way of such Scrip Dividend.

Such adjustment shall become effective on the date of issue of such Shares or if a record date is fixed therefor, immediately after such record date.

(c) *Capital Distribution:*

If and whenever the Company shall pay or make any Capital Distribution to the Shareholders (except where the Conversion Price falls to be adjusted under Condition (b) above), the Conversion Price shall be adjusted by multiplying the Conversion Price in force immediately before such Capital Distribution by the following fraction:

$$\frac{A - B}{A}$$

where:

A is the Current Market Price of one Share on the last trading day immediately before the date of public announcement of the Capital Distribution; and

B is the Fair Market Value on the date of such announcement of the portion of the Capital Distribution attributable to one Share.

Such adjustment shall become effective on the date that such Capital Distribution is made or if a record date is fixed therefor, immediately after such record date.

(d) *Rights Issues of Shares or Options over Shares:*

If and whenever the Company shall issue Shares to all or substantially all Shareholders as a class by way of rights, or issue or grant to all or substantially all Shareholders as a class, by way of rights, options, warrants or other rights to subscribe for, purchase or otherwise acquire any Shares, in each case at less than the Current Market Price per Share on the date of the announcement of the terms of such issue or grant, the Conversion Price shall be adjusted by multiplying the Conversion Price in force immediately before such issue or grant by the following fraction:

$$\frac{A + B}{A + C}$$

where:

A is the number of Shares in issue immediately before such announcement;

B is the number of Shares which the aggregate amount (if any) payable for the Shares issued by way of rights or for the options or warrants or other rights issued or granted by way of rights and for the total number of Shares comprised therein would subscribe for, purchase or otherwise acquire at such Current Market Price per Share; and

C is the aggregate number of Shares issued or, as the case may be, comprised in the issue or grant.

Such adjustment shall become effective on the date of issue of such Shares or issue or grant of such options, warrants or other rights (as the case may be) or where a record date is set, the first date on which the Shares are traded ex-rights, ex-options or ex-warrants, as the case may be.

(e) *Rights Issues of Other Securities:*

If and whenever the Company shall issue any securities (other than Shares or options, warrants or other rights to subscribe for, purchase or otherwise acquire Shares) to all or substantially all Shareholders as a class, by way of rights, or issue or grant to all or substantially all Shareholders as a class by way of rights, options, warrants or other rights to subscribe for, purchase or otherwise acquire, any securities (other than Shares or options, warrants or other rights to subscribe for, purchase or otherwise acquire Shares), the Conversion Price shall be adjusted by multiplying the Conversion Price in force immediately before such issue or grant by the following fraction:

$$\frac{A - B}{A}$$

where:

A is the Current Market Price of one Share on the last trading day immediately before the date on which such issue or grant is publicly announced; and

B is the Fair Market Value on the date of such announcement of the portion of the rights attributable to one Share.

Such adjustment shall become effective on the date of issue of the securities or the issue or grant of such rights, options or warrants (as the case may be) or where a record date is set, the first date on which the Shares are traded ex-rights, ex-options or ex-warrants.

(f) *Issues at less than Current Market Price:* If and whenever the Company shall issue (otherwise than as mentioned in Condition (d) above) any Shares in cash (other than Shares issued on the exercise of conversion rights or any other rights of conversion into, or exchange or subscription for, Shares) or the issue or grant of (otherwise than as mentioned in Condition (d) above) options, warrants or other rights to subscribe or purchase or otherwise acquire Shares in each case at a price per Share which is less than 95% of the Current Market Price on the last trading day immediately before the date of announcement of the terms of such issue or grant, the Conversion Price shall be adjusted by multiplying the Conversion Price in force immediately before such issue or grant by the following fraction:

$$\frac{A + B}{C}$$

where:

A is the number of Shares in issue immediately before the issue of such additional Shares or the grant of such options, warrants or other rights to subscribe for, purchase or otherwise acquire any Shares;

B is the number of Shares which the aggregate consideration (if any) receivable by the Company for such additional Shares to be issued or otherwise made available or, as the case may be, for such additional Shares to be issued or otherwise made available upon the exercise of any such options, warrants or rights, would purchase at such Current Market Price per Share; and

C is the number of Shares in issue immediately after the issue of such additional Shares.

References to additional Shares in the above formula shall, in the case of an issue or grant by the Company of options, warrants or other rights to subscribe for or purchase Shares, mean such Shares to be issued, or otherwise made available, assuming that such options, warrants or other rights are exercised in full at the initial exercise price (if applicable) on the date of issue or grant of such options, warrants or other rights.

Such adjustment shall become effective on the date of issue of such additional Shares or, as the case may be, the Company or grant of such options, warrants or other rights.

(g) *Other Issues at less than Current Market Price:*

Save in the case of an issue of securities arising from a conversion or exchange of other existing securities in accordance with the terms applicable to such existing securities themselves falling within the provisions of this Condition (g), if and whenever the Company or any subsidiary of the Company (otherwise than as mentioned in Conditions (d), (e) or (f) above) or (at the direction or request of or pursuant to any arrangements with the Company or any subsidiary of the Company) any other company, person or entity shall issue any securities (other than the PSCS) which by their terms of issue carry rights of conversion into, or exchange or subscription for or purchase of, or to otherwise acquire, Shares issued or to be issued by the Company at a consideration per Share which is less than 95% of the Current Market Price on the last trading day immediately before the date of announcement of the terms of issue of such securities, the Conversion Price shall be adjusted by multiplying the Conversion Price in force immediately before such issue by the following fraction:

$$\frac{A + B}{A + C}$$

where:

A is the number of Shares in issue immediately before such issue or grant;

B is the number of Shares which the aggregate consideration receivable by the Company for the Shares to be issued or otherwise made available upon conversion or exchange or on exercise of the right of subscription or, as the case may be, the Shares would purchase at such Current Market Price per Share; and

C is the maximum number of Shares to be issued or otherwise made available upon conversion or exchange of such securities or on the exercise of such rights of subscription or purchase or acquisition attached thereto at the initial conversion, exchange or subscription price or rate.

Such adjustment shall become effective on the date of issue of such securities.

(h) *Modification of Rights of Conversion etc:*

If and whenever there shall be any modification of the rights of conversion, exchange or subscription attaching to any such securities as are mentioned in Condition (g) (other than in accordance with the terms of such securities) so that the consideration per Share (for the number of Shares available on conversion, exchange or subscription following the

modification) is less than 95% of the Current Market Price on the last trading day preceding the date of announcement of the proposals for such modification, the Conversion Price shall be adjusted by multiplying the Conversion Price in force immediately before such modification by the following fraction:

$$\frac{A + B}{A + C}$$

where:

A is the number of Shares in issue immediately before such modification;

B is the number of Shares which the aggregate consideration receivable by the Company for the Shares to be issued on conversion or exchange or on exercise of the right of subscription attached to the securities so modified would purchase at the Current Market Price per Share or, if lower, the existing conversion, exchange or subscription price of such securities; and

C is the maximum number of Shares to be issued on conversion or exchange of such securities or on the exercise of the right of subscription attached thereto at the modified conversion, exchange or subscription or purchase price or rate but giving credit in such manner as an independent financial adviser, considers appropriate (if at all) for any previous adjustment under this Condition (h) or Condition (g).

Such adjustment shall become effective on the date of modification of the rights of conversion, exchange or subscription attaching to such securities.

(i) *Other Offers to Shareholders:*

If and whenever there is an issue, sale or distribution by or on behalf of the Company or any subsidiary of the Company or (at the direction or request of or pursuant to any arrangements with the Company or any subsidiary of the Company) any other company, person or entity of any securities in connection with an offer by or on behalf of the Company or any subsidiary of the Company or such other company, person or entity pursuant to which offer the Shareholders generally are entitled to participate in arrangements whereby such securities may be acquired by them (except where the Conversion Price falls to be adjusted under Condition (d), (e), (f) or (g) above), the Conversion Price shall be adjusted by multiplying the Conversion Price in force immediately before such issue, sale or distribution by the following fraction:

$$\frac{A - B}{A}$$



where:

A is the Current Market Price of one Share on the last trading day preceding the date on which such issue, sale or distribution is publicly announced; and

B is the Fair Market Value on the date of such announcement, as determined in good faith by an Independent Adviser, of the portion of the rights attributable to one Share.

Such adjustment shall become effective on the date of issue, sale or distribution of the securities.

(j) *Other Events:*

If the Company determines that an adjustment should be made to the Conversion Price as a result of one or more events or circumstances not referred to in any of the conditions as specified in the terms and conditions of the PSCS, the Company shall, at its own expense, consult an independent financial adviser to determine as soon as practicable what adjustment (if any) to the Conversion Price is fair and reasonable to take account thereof, if the adjustment would result in a reduction in the Conversion Price, and the date on which such adjustment should take effect and upon such determination by the independent financial adviser such adjustment (if any) shall be made and shall take effect in accordance with such determination, provided that where the events or circumstances giving rise to any adjustment pursuant to the Conversion Price adjustment conditions as specified in the terms of the PSCS have already resulted or will result in an adjustment to the Conversion Price or where the circumstances giving rise to any adjustment arise by virtue of events or circumstances which have already given rise or will give rise to an adjustment to the Conversion Price, such modification (if any) shall be made to the operation of the provisions of the Conversion Price adjustment conditions as specified in the terms of the PSCS as may be advised by the independent financial adviser to be in its opinion appropriate to give the intended result.

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## NOTICE OF EGM

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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)

**NOTICE IS HEREBY GIVEN THAT** an extraordinary general meeting of CHINA FLAVORS AND FRAGRANCES COMPANY LIMITED (the “**Company**”) will be held at Jasmine Room, Best Western Plus Hotel Hong Kong, 308 Des Voeux Road West, Hong Kong on 15 July 2016 at 11:00 a.m. for the following 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 21 June 2016 shall apply to this notice of EGM:

### ORDINARY RESOLUTION

1. “**THAT:**

- (a) (i) the terms and conditions of the business transfer agreement (the “**First Agreement**”) dated 26 April 2016 entered into between Shenzhen Huiji Company Limited\* (深圳市輝際實業有限公司) (the “**First Vendor**”) and the Company in relation to the transfer of the business currently carried on by the First Vendor at an aggregate consideration of RMB432,000,000 and all transactions contemplated thereunder, including but not limited to the issuance by the Company of the perpetual subordinated convertible securities (“**PSCS**”) to the First Vendor pursuant to the terms and conditions of the First Agreement, such PSCS being convertible into new shares of the Company (“**Conversion Share(s)**”) at an initial conversion price of HK\$3.00 per Conversion Share to satisfy part of the consideration in the amount of RMB297,000,000, be and are hereby approved, confirmed and rectified;
- (ii) the terms and conditions of the business transfer agreement (the “**Second Agreement**”) dated 26 April 2016 entered into between Shenzhen Da Herong Spice Company Limited\* (深圳市大合榮香料實業有限公司) (the “**Second Vendor**”) and the Company in relation to the transfer of the business currently carried on by the Second Vendor at an aggregate consideration of RMB432,000,000 and all transactions contemplated thereunder, including but not limited to the issuance by the Company of the PSCS to the Second Vendor pursuant to the terms and conditions of the Second Agreement, such PSCS being convertible into Conversion Shares at an initial conversion price of HK\$3.00 per Conversion Share, to satisfy part of the consideration in the amount of RMB243,000,000, be and are hereby approved, confirmed and rectified;

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## NOTICE OF EGM

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- (iii) the terms and conditions of the business transfer agreement (the “**Third Agreement**”) dated 26 April 2016 entered into between Guangzhou Fangyuan Spice Company Limited\* (廣州市芳源香料有限公司) (the “**Third Vendor**”) and the Company in relation to the transfer of the business currently carried on by the Third Vendor at an aggregate consideration of RMB320,000,000 and all transactions contemplated thereunder, including but not limited to the issuance by the Company of the PSCS to the Third Vendor pursuant to the terms and conditions of the Third Agreement, such PSCS being convertible into Conversion Shares at an initial conversion price of HK\$3.00 per Conversion Share, to satisfy part of the consideration in the amount of RMB220,000,000, be and are hereby approved, confirmed and rectified;
- (iv) the terms and conditions of the business transfer agreement (the “**Fourth Agreement**”) dated 26 April 2016 entered into between Hainan Central South Island Spice and Fragrance Company Limited\* (海南中南島香精香料有限公司) (the “**Fourth Vendor**”) and the Company in relation to the transfer of the business currently carried on by the Fourth Vendor at an aggregate consideration of RMB368,000,000 and all transactions contemplated thereunder, including but not limited to the issuance by the Company of the PSCS to the Fourth Vendor pursuant to the terms and conditions of the Fourth Agreement, such PSCS being convertible into Conversion Shares at an initial conversion price of HK\$3.00 per Conversion Share to satisfy part of the consideration in the amount of RMB202,400,000, be and are hereby approved, confirmed and rectified;
- (b) subject to the Listing Committee of The Stock Exchange of Hong Kong Limited granting the listing of and permission to deal in the Conversion Shares to be allotted and issued upon conversion of the PSCS, the directors of the Company (the “**Director(s)**”) be and is/are hereby granted a specific mandate to exercise the powers of the Company to issue the PSCS, and to allot and issue the Conversion Shares pursuant and subject to the terms of the instruments of the PSCS, the First Agreement, the Second Agreement, the Third Agreement and the Fourth Agreement; and
- (c) any one Director be and is hereby authorized for and on behalf of the Company to sign, execute, perfect, deliver, negotiate and agree all such documents, instruments, agreements and deeds and do all such acts, matters and things for and on behalf of the Company, as he/she may in his/her opinion or absolute discretion consider reasonable, necessary or desirable to implement and/or give effect to the First Agreement, the Second Agreement, the Third Agreement and the Fourth Agreement and the transactions contemplated thereunder, including but not limited to the issue of the PSCS, and to agree to any changes as such Director may in his or her absolute discretion consider reasonable, necessary or desirable.”

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## NOTICE OF EGM

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2. “**THAT**

- (a) the authorised share capital of the Company be increased from HK\$80,000,000 (divided into 800,000,000 Shares of HK\$0.10 each (“**Share(s)**”)) to HK\$160,000,000 (divided into 1,600,000,000 Shares) by the creation of an additional 800,000,000 Shares, and that each such new Share, upon issue, shall rank *pari passu* in all respects with the existing Shares; and
- (b) any one director of the Company be authorized on behalf of the Company to do all such acts and things and execute and deliver all such documents which he/she considers necessary, desirable or expedient for the purpose of, or in connection with, the implementation of and giving effect to resolution 2(a).”

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

Hong Kong, 21 June 2016

*As at the date of this notice, the executive directors of the Company are Mr. Wang Ming Fan, Mr. Li Qing Long and Mr. Qian Wu; non-executive director of the Company is Ms. Sy Wai Shuen; and the independent non-executive directors of the Company are Mr. Leung Wai Man, Roger, Mr. Ng Kwun Wan and Mr. Zhou Xiao Xiong.*

*Notes:*

- 1. Any shareholder entitled to attend and vote at the meeting is entitled to appoint one or more proxies to attend and vote instead of him. A proxy need not be a shareholder of the Company.
- 2. In order to be valid, a form of proxy in the prescribed form together with the power of attorney or other authority (if any) under which it is signed must be deposited at the Company’s Hong Kong branch share registrar, Tricor Investor Services Limited at Level 22, Hopewell Centre, 183 Queen’s Road East, Hong Kong not less than 48 hours before the time appointed for holding of the meeting or the adjourned meeting.
- 3. The instrument appointing a proxy shall be in writing under the hand of the appointor or of his attorney duly authorized in writing or, if the appointor is a corporation, either under its common seal or under the hand of an officer or attorney or other person duly authorized.
- 4. Delivery of the form of proxy will not preclude a member from attending and voting in person at the meeting convened and in such event, the form of proxy shall be deemed to be revoked.
- 5. Where there are joint registered holders of any share, any one of such persons may vote at any meeting, either personally or by proxy, in respect of such share as if he were solely entitled thereto; but if more than one of such joint holders be present at any meeting personally or by proxy, then one of the said persons so present being the most, or as the case may be, the more senior shall alone be entitled to vote in respect of the relevant joint holding and, for this purpose, seniority shall be determined by reference to the order in which the names of the joint holder stand on the register in respect of the relevant joint holding.
- 6. The enclosed form of proxy must be signed by the appointor or by his attorney authorized in writing or, if the appointor is a corporation, either under its seal or under the hand of an office, attorney or other person duly authorized to sign the same.

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## NOTICE OF EGM

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7. The Register of Members of the Company will be closed from 11 July 2016 to 15 July 2016, both days inclusive, during which period no transfers of shares shall be effected. In order to qualify for attending the forthcoming EGM, all transfers of shares accompanied by the relevant share certificates must be lodged with the Company's Hong Kong branch share registrar, Tricor Investor Services Limited at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong for registration not later than 4:30 pm on 8 July 2016.