
LETTER FROM THE BOARD



CHINA CANDY HOLDINGS LIMITED

中國糖果控股有限公司

(incorporated in the Cayman Islands with limited liability)

(Stock Code: 8182)

Executive Directors:

Mr. Xu Jinpei (*Chairman*)
Ms. Hong Yinzhi (*Chief Executive Officer*)
Ms. Li Yuna
Ms. Yvonne Hung

Principal Place of Business in Hong Kong:

Room 1603, 16/F
China Building
29 Queen's Road Central
Central, Hong Kong

Independent non-executive Directors:

Mr. Chu Wai Wa Fangus
Mr. Chiu Sai Chuen Nicholas
Mr. Ong King Keung

Registered office in the Cayman Islands:

P.O. Box 1350
Clifton House, 75 Fort Street
Grand Cayman, KY1-1108
Cayman Islands

22 June 2017

To the Shareholders,

Dear Sir or Madam,

**VOLUNTARY CONDITIONAL CASH OFFER BY
SOMERLEY CAPITAL LIMITED
FOR AND ON BEHALF OF
EVER MAPLE FLAVORS AND FRAGRANCES HOLDINGS LIMITED
TO ACQUIRE ALL THE ISSUED SHARES OF
CHINA CANDY HOLDINGS LIMITED**

INTRODUCTION

Reference is made to the Joint Announcement whereby the Offeror and the Company jointly announced that, among other things, a voluntary conditional cash offer would be made by Somerley Capital, for and on behalf of the Offeror, to acquire all of the Shares in the entire issued share capital of the Company.

The purpose of this Composite Document (of which this letter forms part) is to provide you with, among other things: (i) further information relating to the Group, the Offeror and the Offer; (ii) the "Letter from Somerley Capital" containing details of the Offer; (iii) the "Letter from the Independent Board Committee" containing its recommendations to the

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Independent Shareholders in relation to the Offer; and (iv) the “Letter from the Independent Financial Adviser” containing its advice to the Independent Board Committee on whether the terms of the Offer are fair and reasonable so far as the Independent Shareholders are concerned and on acceptance in respect of the Offer.

Unless the context otherwise requires, terms defined in this Composite Document shall have the same meanings when used in this letter.

INDEPENDENT BOARD COMMITTEE AND INDEPENDENT FINANCIAL ADVISER

Under Rule 2.1 of the Takeovers Code, a board which receives an offer or which is approached with a view to an offer being made, must, in the interests of shareholders, establish an independent committee of the board to make a recommendation: (i) as to whether the offer is, or is not, fair and reasonable; and (ii) as to acceptance.

The Independent Board Committee, comprising all independent non-executive Directors, namely, Mr. Ong King Keung, Mr. Chu Wai Wa Fangus and Mr. Chiu Sai Chuen Nicholas, has been formed to advise the Independent Shareholders as to whether the terms of the Offer are fair and reasonable and as to acceptance of the Offer. The above-named independent non-executive Directors have no direct or indirect interest or involvement in the Offer. It is considered appropriate for them to be members of the Independent Board Committee in this regard.

Akron, with the approval of the Independent Board Committee, has been appointed as the Independent Financial Adviser to the Independent Board Committee in respect of the Offer.

The full texts of the letter from the Independent Board Committee addressed to the Independent Shareholders and the letter from the Independent Financial Adviser addressed to the Independent Board Committee are set out in this Composite Document. **You are advised to read both letters and the additional information contained in the appendices to this Composite Document carefully before taking any action in respect of the Offer.**

THE OFFER

As disclosed in the “Letter from Somerley Capital”, Somerley Capital, for and on behalf of the Offeror, makes the voluntary conditional cash offer to all Independent Shareholders to acquire all the issued Shares on the following basis:

For each Offer Share HK\$0.3565 in cash

Comparison of value

The Offer Price of HK\$0.3565 per Offer Share represents:

- (i) a discount of approximately 48.33% below the closing price of HK\$0.690 per Share as quoted on the Stock Exchange on the Latest Practicable Date;

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- (ii) a discount of approximately 31.44% below the closing price of HK\$0.520 per Share as quoted on the Stock Exchange on the Last Trading Day;
- (iii) a discount of approximately 14.92% below the average of the closing prices of the Shares as quoted on the Stock Exchange for the five (5) consecutive trading days up to and including the Last Trading Day of approximately HK\$0.419 per Share;
- (iv) a discount of approximately 13.89% below the average of the closing prices of the Shares as quoted on the Stock Exchange for the ten (10) consecutive trading days up to and including the Last Trading Day of approximately HK\$0.414 per Share;
- (v) a premium of approximately 2.94% over the average of the closing prices of the Shares as quoted on the Stock Exchange for the thirty (30) consecutive trading days up to and including the Last Trading Day of approximately HK\$0.346 per Share; and
- (vi) a premium of approximately 507.91% over the audited consolidated net asset value per Share as at 31 December 2016 of approximately HK\$0.059 (which was calculated by dividing the sum of the audited consolidated net asset value of the Group as at 31 December 2016 of approximately HK\$94,299,402 by 1,608,000,000 Shares in issue as at the Latest Practicable Date).

Highest and lowest Share prices

The highest closing price of the Shares as quoted on the Stock Exchange during the Relevant Period was HK\$0.860 on 22 May 2017 and the lowest closing price of the Shares as quoted on the Stock Exchange during the Relevant Period was HK\$0.100 on 30 September 2016, 3 October 2016 and 5 October 2016.

Conditions to the Offer

The Offer is conditional upon the satisfaction of the following Conditions:

- (a) valid acceptances of the Offer being received (and not, where permitted, withdrawn) by 4:00 p.m. on the Closing Date (or such later time or date as the Offeror may, subject to the Takeovers Code, decide) in respect of such number of Shares which, together with Shares acquired or agreed to be acquired before or during the Offer, will result in the Offeror and the parties acting in concert with it together holding more than 50% of the voting rights of the Company;
- (b) the Shares remaining listed and traded on the GEM up to the Closing Date save for any temporary suspension(s) of trading in the Shares as a result of the Offer and no indication being received on or before the Closing Date from the SFC and/or the Stock Exchange to the effect that the listing of the Shares on the GEM is or is likely to be withdrawn, other than as a result of the Offer; and

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- (c) no events, up to the Closing Date, having occurred which would make the Offer or the acquisition of any of the Shares under the Offer void, unenforceable or illegal or their implementation being prohibited or which would impose material conditions, limitations or obligations with respect to the Offer.

As at the Latest Practicable Date, no events have occurred which would make the Offer or the acquisition of any of the Shares under the Offer void, unenforceable or illegal or their implementation being prohibited or which would impose material conditions, limitations or obligations with respect to the Offer.

The Offeror reserves the right to waive, in whole or in part, Condition (b). For the avoidance with doubt, Conditions (a) and (c) cannot be waived.

Pursuant to Note 2 to Rule 30.1 of the Takeovers Code, the Offeror should not invoke Conditions (b) or (c) so as to cause the Offer to lapse unless the circumstances which give rise to the right to invoke any such Conditions are of material significance to the Offeror in the context of the Offer.

In accordance with Rule 15.3 of the Takeovers Code, the Offeror must publish an announcement when the Offer becomes unconditional as to acceptances and when the Offer becomes unconditional in all respects. The Offer must also remain open for acceptance for at least fourteen (14) days after the Offer becomes unconditional in all respects. Independent Shareholders should note that the Offeror does not have any obligation to keep the Offer open for acceptance beyond this 14-day period.

WARNING: Shareholders and/or potential investors of the Company should note that the Offer is subject to the satisfaction or waiver (where applicable) of the Conditions. Accordingly, the Offer may or may not become unconditional. Shareholders and/or potential investors of the Company should therefore exercise caution when dealing in the securities of the Company. Persons who are in doubt as to the action they should take should consult their licensed securities dealers or registered institutions in securities, bank managers, solicitors, professional accountants or other professional advisers.

IRREVOCABLE UNDERTAKINGS

On 10 May 2017 (after trading hours), Jia Qing and Noble Core executed the Jia Qing Irrevocable Undertaking and the Noble Core Irrevocable Undertaking respectively in favour of the Offeror, pursuant to which, among other things, each of Jia Qing and Noble Core has irrevocably undertaken to the Offeror to accept the Offer in respect of all the Shares beneficially owned by Jia Qing and Noble Core by no later than 1:00 p.m. on the fifth Business Day after the despatch of this Composite Document and shall not withdraw such acceptance.

As at the Latest Practicable Date, (i) Jia Qing is interested in 150,000,000 Shares, representing approximately 9.33% of the issued share capital of the Company; and (ii) Noble Core is interested in 268,200,000 Shares, representing approximately 16.68% of the issued share capital of the Company, respectively.

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Prior to the closing, lapse or withdrawal of the Offer, each of Jia Qing and Noble Core has undertaken, among other things, not to sell or transfer or otherwise dispose of (or permit any such action to occur in respect of) any interest in any Shares held by Jia Qing and Noble Core.

INFORMATION ON THE GROUP

Principal activities

The Company is an investment holding company incorporated in the Cayman Islands with limited liability and its issued Shares are listed on the GEM. The Group is principally engaged in the manufacturing of various types of candies in PRC which include jelly drops candies, aerated candies, hard candies and chocolate-made products.

Financial Information

Set out below is a summary of the financial information of the Group for the three financial years ended 31 December 2016, 2015 and 2014, which is extracted from the annual reports of the Company for the two financial years ended 31 December 2016 and 2015, and the three months ended 31 March 2017, which is extracted from the first quarterly results report of the Company for the three months ended 31 March 2017, which have been prepared in accordance with Hong Kong Financial Reporting Standards.

	For the three months ended 31 March 2017 (unaudited) (RMB'000)	For the year ended 31 December 2016 (audited) (RMB'000)	2015 (audited) (RMB'000)	2014 (audited) (RMB'000)
Revenue	11,471	75,757	81,224	70,159
Profit/(loss) before taxation	(5,124)	(2,127)	(187)	6,842
Profit/(loss) after taxation and attributable to owners of the Company	(5,366)	(3,291)	(4,886)	2,016

The audited consolidated total equity of the Group was approximately RMB83,621,000, RMB86,492,000 and RMB46,991,000 as at 31 December 2016, 2015 and 2014, respectively.

Further details of the financial information of the Group are set out in Appendix II to this Composite Document.

Shareholding structure of the Company

As at the Latest Practicable Date, there were 1,608,000,000 Shares in issue, details of which are set out in the section headed "Share capital of the Company" in Appendix III to this Composite Document.

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The shareholding structure of the Company as at the Latest Practicable Date was as follows:

Shareholders	As at the Latest Practicable Date	
	No. of Shares	%
Jia Qing	150,000,000	9.33
Noble Core	<u>268,200,000</u>	<u>16.68</u>
Sub-total	418,200,000	26.01
Public Shareholders	<u>1,189,800,000</u>	<u>73.99</u>
Total	<u>1,608,000,000</u>	<u>100.00</u>

As at the Latest Practicable Date, the Company has no outstanding options, warrants, derivatives or other securities that are convertible or exchangeable into Shares or other types of equity interest in the Company.

Your attention is drawn to Appendices II and III to this Composite Document which contain further financial and general information of the Group.

INTENTIONS OF THE OFFEROR IN RELATION TO THE GROUP

As stated in the “Letter from Somerley Capital”, the Offeror intends to continue the existing businesses of the Group.

Subject to the close of the Offer, the Offeror is in the process of reviewing the financial position and operations of the Group in order to formulate a long-term strategy for the Group and explore other business, investment and/or acquisition opportunities for enhancing its future development and strengthen its revenue bases.

The Offeror has no intention to terminate the employment of any employees of the Group or to make significant changes to any employment (except for the proposed change of the Board composition as detailed in the section sub-headed “Proposed change to the Board composition of the Company” below) or to dispose of, redeploy or re-allocate the Group’s fixed assets which are not in the ordinary and usual course of business of the Group.

Proposed change to the Board composition of the Company

As stated in the “Letter from Somerley Capital”, it is intended that all existing Directors will resign after the Closing Date and with effect only after the earliest time permitted under the Takeovers Code. Upon closing of the Offer, the Offeror intends to nominate new Directors to the Board with effect only after the earliest time permitted under the Takeovers Code. As at the Latest Practicable Date, the Offeror has not reached any final decision as to who will be nominated as new Directors.

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Any changes to the Board will be made in compliance with the Takeovers Code and the GEM Listing Rules and further announcements will be made as and when appropriate.

The Board is aware of the Offeror's intention regarding the Group and its employees and the proposed change of Board composition, and is willing to render co-operation with the Offeror and will continue to act in the best interests of the Group and the Shareholders as a whole.

Maintaining the listing status of the Company

As stated in the "Letter from Somerley Capital", the Offeror has no intention to privatise the Group and intends to maintain the listing of the Shares on the GEM. The Offeror will undertake to the Stock Exchange to take appropriate steps after the close of the Offer to ensure that not less than 25% of the total number of issued Shares will continue to be held by the public at all times.

The Stock Exchange has stated that if, upon closing of the Offer, less than the minimum prescribed percentage applicable to the Company, being 25% of the total number of issued Shares, are held by the public or if the Stock Exchange believes that:

- (i) a false market exists or may exist in the Shares; or
- (ii) there are insufficient Shares in public hands to maintain an orderly market,

it will consider exercising its discretion to suspend dealing in the Shares.

Your attention is drawn to the section sub-headed "Information on the Offeror" in the "Letter from Somerley Capital" for information on the Offeror.

COMPULSORY ACQUISITION

As stated in the "Letter from Somerley Capital", the Offeror does not intend to exercise any right which may be available to it under the provisions of the laws of the Cayman Islands to compulsorily acquire any outstanding Offer Shares not acquired pursuant to the Offer after the close of the Offer.

RECOMMENDATION

Your attention is drawn to (i) the "Letter from the Independent Board Committee" as set out on pages 22 to 23 of this Composite Document, which contains its recommendations to the Independent Shareholders in respect of the Offer, and (ii) the "Letter from the Independent Financial Adviser" as set out on pages 24 to 39 of this Composite Document, which contains, among other things, its advice to the Independent Board Committee in relation to the Offer and the principal factors considered by it before arriving at its recommendation.

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ADDITIONAL INFORMATION

You are also advised to read this Composite Document together with the accompanying Form of Acceptance in respect of the acceptance and settlement procedures of the Offer. Your attention is drawn to the additional information contained in the appendices to this Composite Document.

In considering what action to take in connection with the Offer, you should consider your own tax positions, if any, and, in case of any doubt, consult your professional advisers.

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Yours faithfully,
By order of the Board
China Candy Holdings Limited



Xu Jinpei
Chairman