

The Stock Exchange of Hong Kong Limited takes no responsibility for the contents of this announcement, makes no representation as to its accuracy or completeness and expressly disclaims any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this announcement.

This announcement is not an offer to sell or the solicitation of an offer to buy any securities and neither this announcement nor anything herein forms the basis for any contract or commitment whatsoever. Neither this announcement nor any copy hereof may be taken into or distributed in the United States. Securities may not be offered or sold in the United States absent registration or an exemption from registration, and the securities described herein are not being registered, offered or sold in the United States.



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)

PLACING OF EXISTING SHARES AND SUBSCRIPTION FOR NEW SHARES

Placing Agent

Morgan Stanley

Morgan Stanley & Co. International Limited

Financial Adviser



On 3 July 2006, the Vendor, the Company and the Placing Agent entered into the Placing and Subscription Agreement pursuant to which the Placing Agent agreed to procure purchasers, failing which, to purchase itself 73,126,000 Placing Shares held by the Vendor to independent places at the Placing Price of HK\$3.15 per Placing Share.

The Vendor also agreed to subscribe, and the Company agreed to allot and issue to the Vendor, 36,563,000 Subscription Shares at the Subscription Price of HK\$3.15 per Subscription Share.

The net proceeds to be received by the Company from the Subscription will amount to approximately HK\$111.63 million. The Company intends to apply approximately HK\$67.2 million of such net proceeds to acquire land and to construct factories for the purpose of manufacturing flavors and fragrances. The Company intends to construct a factory with production capacity of 5,200 tons per annum, which will be approximately 2 times the production capacity of the existing factory of the Company. The balance of the net proceeds in the amount of approximately HK\$44.43 million shall be used for general working capital purposes.

At the request of the Company, trading in the Shares was suspended on the Stock Exchange from 2:30 p.m. on 3 July 2006 pending release of this announcement. Application has been made to the Stock Exchange to resume the trading in the Shares at 9:30 a.m. on 4 July 2006.

PLACING AND SUBSCRIPTION AGREEMENT DATED 3 JULY 2006

Parties

- (i) the Vendor, a controlling shareholder of the Company;
- (ii) the Company; and
- (iii) the Placing Agent.

THE PLACING

Number of Placing Shares

73,126,000 Shares, representing approximately 17.93% of the Company's existing issued share capital, and approximately 16.45% of the Company's issued share capital as enlarged by the issue of the Subscription Shares. The Placing Shares have been fully placed on 3 July 2006.

The Placees

The Placing Shares have been placed to not less than 6 placees who are all professional, institutional and other investors. To the best knowledge of the Company, none of the placees will become substantial shareholders (as defined in the Listing Rules) of the Company following completion of the Placing.

Placing Price

HK\$3.15 per Share, representing (i) a discount of approximately 14.29% to the closing price of HK\$3.675 per Share quoted on the Stock Exchange on 3 July 2006 (being the date of this announcement), the Placing Price would be approximately 16 times the earnings per share for the year ended 31 December 2005 of the Company, which is more acceptable by the placees; (ii) a discount of approximately 9.48% to the average closing price of the Shares of approximately HK\$3.48 per Share as quoted on the Stock Exchange for the last five trading days up to and including the date of this announcement; and (iii) a discount of approximately 8.70% to the average closing price of the Shares of approximately HK\$3.45 per Share as quoted on the Stock Exchange from 20 June 2006 for the last ten trading days up to and including the date of this announcement.

The Placing Price was determined after arm's length negotiations between the parties. The Directors are of the opinion that the Placing Price and the discount are fair, reasonable and in the best interest of the Company.

Rights

The Placing Shares will be sold free of any encumbrances and third-party rights. The placees will receive all dividends and distributions declared, made or paid on or after the Transaction Date.

Independence of the Placing Agent and the placees

To the best knowledge of the Company, each of the Placing Agent (and its beneficial owners) and the placees (and their respective beneficial owners) are independent of and not connected with the Vendor or any person acting in concert with it (as defined in the Takeovers Code). To the best knowledge of the Company, the placees (and their respective beneficial owners) are also independent of the Company, the connected persons of the Company and are not connected persons of the Company.

Completion of Placing

The Placing is unconditional. It is expected that completion of the Placing will take place on or about 6 July 2006.

Termination events

The Placing and Subscription Agreement contains provisions granting the Placing Agent the right to terminate its placing obligations if it becomes aware that certain events have occurred before 10:00 a.m. on the date of completion of the Placing. These events include but not limited to (i) any breach of the representations, warranties and undertakings by the Company and/or the Vendor set out in the Placing and Subscription Agreement which would have a material adverse effect on the Group; (ii) any material adverse change in the general affairs, management, business or the financial or trading position of the Group; and (iii) any significant change in local, national or international financial, economic, political, military or market conditions or currency exchange rates or exchange controls which the Placing Agent considers is likely to have a material adverse effect on the success of the Placing.

If the Placing Agent exercises its right to terminate the Placing, the Placing will not proceed.

Lock-up

The Vendor has undertaken to the Placing Agent that, for a period of 180 days from completion of the Placing, it will not and will procure that none of its nominees or associates will, inter alia, sell or otherwise dispose of (either conditionally or unconditionally, or directly or indirectly, or otherwise) any Shares (including the Subscription Shares) or any interests therein, without the prior written consent of the Placing Agent.

The Company has also undertaken to the Placing Agent, and the Vendor has undertaken to the Placing Agent to procure that, for a period of 180 days from completion of the Placing, the Company will not, inter alia, allot or issue or offer to allot or issue (either conditionally or unconditionally, or directly or indirectly, or otherwise) any Shares or any interests in Shares without the prior written consent of the Placing Agent, except for (i) the Subscription Shares to be allotted and issued to the Vendor pursuant to the Subscription or (ii) Shares that were subscribed for under any share option scheme that may be operated by the Company from time to time.

THE SUBSCRIPTION

Number of Subscription Shares

36,563,000 new Shares, representing approximately 8.96% of the Company's existing issued share capital, and approximately 8.23% of the Company's issued share capital as enlarged by the issue of the Subscription Shares.

Subscription Price

HK\$3.15 per Subscription Share, which is equivalent to the Placing Price. The net subscription monies payable by the Vendor to the Company will be approximately HK\$111.63 million.

The Subscription Price was determined after arm's length negotiations between the parties. The Directors are of the opinion that the Subscription Price and the discount are fair, reasonable and in the best interest of the Company.

Mandate to issue new Shares

The Subscription Shares will be issued under the general mandate granted to the Directors pursuant to a resolution passed by the shareholders of the Company at the annual general meeting held on 4 May 2006. Under such general mandate, the Directors are allowed to allot and issue up to 81,578,400 Shares. As at the date of this announcement, no Shares have been allotted and issued pursuant to such general mandate.

Ranking

The Subscription Shares, when fully paid, will rank equally with all the existing issued Shares.

Conditions of the Subscription

Completion of the Subscription is conditional on:

1. the Listing Committee of the Stock Exchange granting the listing of, and permission to deal in, the Subscription Shares; and
2. completion of the Placing pursuant to the terms of the Placing and Subscription Agreement.

If the conditions are not fulfilled within 14 days from the date of the Placing and Subscription Agreement or such other date as may be agreed between the Company and the Vendor, the Subscription will lapse.

Completion of the Subscription

Completion of the Subscription will take place on the second business day after the date upon which the last of the conditions of the Subscription is satisfied or such other date as the Vendor and the Company may agree, provided that completion will not be later than 14 days from the date of the Placing and Subscription Agreement.

EFFECT OF THE PLACING AND THE SUBSCRIPTION

The shareholding structure of the Company before and after the Placing and the Subscription is summarized as follows (*Note 1*):

	At the date of this announcement		Immediately after completion of the Placing but before the Subscription		Immediately after completion of the Placing and the Subscription	
	<i>No. of Shares</i>	<i>%</i>	<i>No. of Shares</i>	<i>%</i>	<i>No. of Shares</i>	<i>%</i>
The Vendor (<i>Note 2</i>)	300,690,000	73.72	227,564,000	55.79	264,127,000	59.43
Public shareholders						
Placees (<i>Note 3</i>)	–	–	73,126,000	17.93	73,126,000	16.45
Other shareholders	107,202,000	26.28	107,202,000	26.28	107,202,000	24.12
Total	<u>407,892,000</u>	<u>100</u>	<u>407,892,000</u>	<u>100</u>	<u>444,455,000</u>	<u>100</u>

Notes:

1. The table assumes no Shares are issued pursuant to the employee share option scheme of the Company between the date of this announcement and completion of the Placing and the Subscription.
2. The Vendor is beneficially owned as to 52.45% by Mr. Wong Ming Bun, 15.93% by Mr. Wang Ming Fan, 14.26% by Mr. Wang Ming Qing, 10.05% by Mr. Wang Ming You and 7.31% by Mr. Li Qing Long. Mr. Wong Ming Bun, Mr. Wang Ming Fan and Mr. Li Qing Long are executive directors of the Company. Mr. Wong Ming Bun, Mr. Wang Ming Fan, Mr. Wang Ming Qing and Mr. Wang Ming You are brothers to each other.
3. It is assumed that the places of the Placing Shares are not existing shareholders of the Company.

REASONS FOR THE PLACING AND SUBSCRIPTION AND USE OF PROCEEDS

The net proceeds to be received by the Company from the Subscription will amount to approximately HK\$111.63 million. The Company intends to apply approximately HK\$67.2 million of such net proceeds to acquire land and to construct factories for the purpose of manufacturing flavors and fragrances. The Company intends to construct a factory with production capacity of 5,200 tons per annum, which will be approximately 2 times the production capacity of the existing factory of the Company. The balance of the net proceeds in the amount of approximately HK\$44.43 million shall be used for general working capital purposes.

The Company has not conducted any equity fund raising activities from the date of its listing on 9 December 2005. In view of current capital market conditions, the Directors consider that the Placing and the Subscription represent a good opportunity for the Company to raise funds in order to meet the aforesaid funding obligations. It will also increase the capital base of the Company and broaden its shareholder base.

The Directors believe the terms of the Placing and the Subscription, which have been negotiated on an arm's length basis in accordance with normal commercial terms, are fair, reasonable and in the interests of the Company and its shareholder taken as a whole.

GENERAL

The Company will apply to the Stock Exchange for the granting of the listing of, and permission to deal in, the Subscription Shares.

At the request of the Company, trading in the Shares was suspended on the Stock Exchange from 2:30 p.m. on 3 July 2006 pending release of this announcement. Application has been made to the Stock Exchange to resume the trading in the Shares at 9:30 a.m. on 4 July 2006.

DEFINITIONS

“associate”	has the meaning ascribed to it in the Listing Rules
“Company”	China Flavors and Fragrances Company Limited 中國香精香料有限公司 (Stock Code: 3318), a company incorporated in the Cayman Islands with limited liability
“Group”	the Company and its subsidiaries
“HK\$”	Hong Kong dollar, the lawful currency of the Hong Kong Special Administrative Region of the People's Republic of China
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange

“Placing”	the placing of the Placing Shares by the Placing Agent pursuant to the terms of the Placing and Subscription Agreement
“Placing Agent”	Morgan Stanley & Co. International Limited, the placing agent and underwriter of the Placing
“Placing and Subscription Agreement”	the Placing, Underwriting and Subscription Agreement dated 3 July 2006 entered into between the Vendor, the Company and the Placing Agent in relation to the Placing and the Subscription
“Placing Price”	HK\$3.15 per Placing Share
“Placing Shares”	73,126,000 Shares currently owned by the Vendor
“Share(s)”	ordinary shares of nominal value of HK\$0.10 each in the capital of the Company
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Subscription”	the subscription of the Subscription Shares by the Vendor at the Subscription Price pursuant to the Placing and Subscription Agreement
“Subscription Price”	the subscription price of the Subscription Shares, which is equivalent to the Placing Price
“Subscription Share(s)”	36,563,000 new Share(s) to be subscribed by the Vendor at the Subscription Price under the Placing and Subscription Agreement
“Takeovers Code”	The Hong Kong Code on Takeovers and Mergers
“Transaction Date”	means 4 July 2006, the date when the sale of the Placing Shares shall be transacted by way of a crossing on the Stock Exchange or, if dealings in the Shares on the Stock Exchange are suspended on 4 July 2006, the first day on which dealings resume or such other date as the Vendor and Placing Agent may agree in writing
“Vendor”	Creative China Limited, a company incorporated in the British Virgin Islands

By Order of the Board
China Flavors and Fragrances Company Limited
中國香精香料有限公司
Wong Ming Bun
Chairman

Hong Kong, 3 July 2006

As at the date of this announcement, the executive directors of the Company are Mr. Wong Ming Bun, Mr. Wang Ming Fan, Mr. Li Qing Long; and the independent non-executive directors of the Company are Mr. Goh Gen Cheung, Mr. Leung Wai Man, Roger and Mr. Zhou Xiao Xiong.

“Please also refer to the published version of this announcement in The Standard”