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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 TRANSACTION
ACQUISITION OF THE ENTIRE ISSUED SHARE CAPITAL OF
CITIWELL INTERNATIONAL GROUP LIMITED**

On 28 August 2007, that the Purchaser, an indirect wholly owned subsidiary of the Company, the Vendor, the Guarantor and WT entered into the Agreement pursuant to which the Purchaser has conditionally agreed to acquire from the Vendor the Sale Shares of Citiwell at the Consideration of HK\$120,000,000. The sole asset of Citiwell is 50% equity interest in WT.

The Acquisition constitutes a discloseable transaction for the Company under Chapter 14 of the Listing Rules. A circular containing information on, among other things, the Agreement will be dispatched to the Shareholders as soon as practicable.

THE AGREEMENT

Date: 28 August 2007

Parties:

Purchaser: Boton Investments Limited, a company incorporated in the British Virgin Islands with limited liability and an indirect wholly owned subsidiary of the Company

Vendor: Mr. Lai Wing Leung, the legal and beneficial owner of 100% of shareholding interest in Citiwell

Guarantor: Mr. Wei Shu Ping, the legal and beneficial owner of 50% of equity interest in WT

WT: 滕州市悟通香料有限責任公司 (Teng Zhou Shi Wu Tong Fragrances Company Limited), a company incorporated with limited liability in the PRC which is owned as to 50% by the Guarantor and 50% by Citiwell

To the best knowledge, information and belief of the Directors and having made all reasonable enquiries, the Vendor, the Guarantor, WT and the ultimate beneficial owners of WT are third parties independent of the Company and its connected persons (as defined in the Listing Rules).

Assets to be acquired

The Sale Shares represent 100% of the total issued share capital of Citiwell. The sole asset of Citiwell is the 50% equity interests in WT.

The parties agreed that the Purchaser shall be entitled to appoint, via Citiwell, 60% or more of the total number of directors in the board of directors of WT, and also the financial controller and supervisor of WT. As the Purchaser has control over the board of directors of WT, WT will become an indirect non-wholly owned subsidiary of the Company upon Completion.

Consideration

The Consideration for the Acquisition is HK\$120,000,000, which was agreed between the parties to the Agreement based on arm's length negotiations and was arrived at based on the following factors: (i) the unaudited net assets value of WT as at 30 June 2007 of approximately RMB22,579,615.10 (equivalent to approximately HK\$23,277,953.71), (ii) the increase of net asset value of WT after including the profit for the year and the revaluation of the acquisition of the land; (iii) the reduction of the production cost of the Company; (iv) the enhancement of the extraction production procedures of the Company; (v) the vertical integration of the business of the Company; (vi) the potential growth of WT reflected by the terms of covenants; and (vii) an indicative price earning ratio of approximately 9 times to the terms of covenants. As such, the Board is of the view that a premium of the Consideration is fair and reasonable.

The Consideration shall be satisfied by the Purchaser in the following manner:

1. HK\$40,000,000 shall be paid as refundable deposit within 5 Business Days from the date of signing of the Agreement;
2. HK\$80,000,000, being the balance of the Consideration, to be paid upon Completion.

The Consideration will be financed by the internal resources of the Group.

Conditions precedent

Completion of the Agreement shall be conditional upon fulfillment or waiver (as the case may be) of, inter alia, the following conditions:

- (a) the board of directors of the Purchaser approving the Agreement and the transactions contemplated therein; and
- (b) the legal opinion to be issued by a firm of PRC lawyers in such form and substance to the satisfaction of the Purchaser having been obtained

Completion

Completion of the Agreement shall take place within 7 Business Days (or such later date the parties may agree) following the date on which all the conditions set out above are fulfilled or waived.

Covenants of the Guarantor

Pursuant to the Agreement, the Guarantor warrants that :

1. on the basis that the sales before tax (i.e. turnover including the value-added tax) of WT is RMB150,000,000 (equivalent to approximately HK\$154,639,175) in 2007, the annual sales growth rate of WT shall be 30% for each financial year of 2008, 2009 and 2010. The basis is with reference to the turnover for the period from 1 January 2007 to 30 June 2007, the confirmed order already obtained and the estimation of unconfirmed orders to be obtained. The growth rate of 2008, 2009 and 2010 is the results of the promotion of the new products of WT;
2. on the basis that the net profit after tax of WT is RMB26,000,000 (equivalent to approximately HK\$26,804,124) in 2007, the annual growth rate of the net profit of WT shall be 26%, 28% and 30% for the financial year of 2008, 2009 and 2010 respectively. The basis is due to the consideration of the net profit of WT up to 30 June 2007, the estimated net profit of WT from 1 July 2007 to 31 December to be derived from the confirmed orders and the assessment of the net profit to be obtained from the unconfirmed orders. It is estimated by the management of WT that the annual growth rate of the net profit of WT is the result of the increase in turnover in 2008, 2009 and 2010;
3. the annual net profit ratio (i.e. net profit after tax of the year over annual turnover) of WT shall be 20% for each financial year of 2008, 2009 and 2010; and
4. the annual settlement rate of sales during the year received by WT shall be 95% for each year of 2008, 2009 and 2010.

If the financial position of WT is unable to meet any of the above targets in any year of 2008, 2009 and 2010, the Guarantor shall compensate the Purchaser of the relevant shortfall as soon as possible after the audited reports of each of the relevant financial years of WT (i.e. 2008, 2009 and 2010) are issued.

INFORMATION ON CITIWELL

Citiwell is a company incorporated in the British Virgin Islands on 4 January 2007, which holds 50% equity interest in WT. Citiwell has not conducted any business save for its investment holding of WT since its date of incorporation and no accounts of Citiwell have been prepared since then.

WT is a limited company established in the PRC and is principally engaged in the business of manufacturing and selling flavors, fragrances and food additives. As at 30 June 2007, the unaudited net asset value of WT was RMB22,579,615.10 (equivalent to approximately HK\$23,277,953.71). The net profit before and after tax of WT for the year ended 31 December 2005 was RMB3,297,654.53 (equivalent to approximately HK\$3,399,643.85) and RMB2,315,362.27 (equivalent to approximately HK\$2,386,971.41) respectively. The net profits before and after tax of WT for the year ended 31 December 2006 was RMB4,583,676.01 (equivalent to approximately HK\$4,725,439.28) and RMB3,051,320.82 (equivalent to approximately HK\$3,145,691.57) respectively.

INFORMATION ON THE GROUP AND REASONS FOR THE ACQUISITION

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 has a long established business relationship with WT in the upstream business of the Company. The Acquisition will reduce the production cost of the Company and assist the Company to accelerate the development progress of extraction, which is one of the major production procedures of flavors and fragrances.

The Board (including the independent non-executive directors of the Company) is of the view that the Agreement was entered into on normal commercial terms and in the ordinary and usual course of business of the Group. The terms of the Agreement are fair and reasonable and in the interests of the Shareholders and the Company as a whole.

With a view to the uptrend growth in turnover and results of the Group over the past years, the Board considers that the Group has to expand its production facilities and sales and distribution network to cater for the anticipated increase in market demand for the Group's products in quality flavor enhancer, food flavors and fine fragrances. Notwithstanding the Group has established good business relationships with its major customers, including manufacturers of tobacco, food and beverages, the Board considers it is essential for the Group in maintaining a reliable production base with tailor-made products providing to customers in leveraging on the Group's established foundation. Given that WT has a long established business in flavors and fragrances, the Board believes the Acquisition will enhance the Group's overall production and sales and distribution in matching with the robust growth in the flavors and fragrances business.

GENERAL

The Acquisition constitutes a discloseable transaction under Chapter 14 of the Listing Rules as the relevant percentage ratios is more than 5% but less than 25%. A circular containing information on, among other things, the Agreement will be dispatched to the Shareholders as soon as practicable.

For use in this announcement and for illustration purpose only, conversion of Renminbi into HK\$ is based on the approximate exchange rate of HK\$1.00 to RMB0.97.

DEFINITIONS

In this announcement, unless otherwise defined, the following expressions have the meaning set out below:

“Acquisition”	the acquisition of the entire issued share capital in Citiwell from the Vendor by the Purchaser pursuant to the Agreement
“Agreement”	the Deed of Sale and Purchase dated 28 August 2007 entered into between the Purchaser, the Vendor and the Guarantor in relation to, inter alia, the Acquisition
“Business Day(s)”	a day (excluding Saturday) on which banks are open for business in Hong Kong
“Board”	means the board of directors of the Company

“Citiwell”	Citiwell International Group Limited, a company incorporated in the British Virgin Islands with limited liability, of which all its issued shares are legally and beneficially owned by the Vendor
“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”	completion of the Acquisition of the Sale Shares by the Purchaser from the Vendor in accordance with terms of the Agreement
“Consideration”	the consideration of HK\$120,000,000 payable by the Purchaser to the Vendor for the sAcquisition pursuant to the Agreement
“Directors”	the directors of the Company
“Group”	the Company together with its subsidiaries
“Guarantor”	Mr. Wei Shu Ping, the legal and beneficial owner of 50% of equity interest in WT
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“PRC”	the People’s Republic of China
“Purchaser”	Boton Investments Limited, a company incorporated in the British Virgin Islands with limited liability and an indirect wholly owned subsidiary of the Company
“Sale Shares”	the 50,000 shares of USD1.00 (equivalent to approximately HK\$7.8) each in the issued share capital of Citiwell beneficially held by the Vendor, representing 100% issued share capital of Citiwell
“Share(s)”	ordinary share(s) of HK\$0.01 each in the share capital of the Company
“Shareholder(s)”	holder(s) of the Share(s)
“Stock Exchange”	the Stock Exchange of Hong Kong Limited
“Vendor”	Mr. Lai Wing Leung, the legal and beneficial owner of 100% of shareholding interest in Citiwell
“WT”	滕州市悟通香料有限責任公司 (Teng Zhou Shi Wu Tong Frangrances Company Limited), a company incorporated with limited liability in the PRC which is owned as to 50% by the Guarantor and 50% by Citiwell

“HK\$” Hong Kong dollars, the lawful currency of Hong Kong

“RMB” Renminbi, the lawful currency of the PRC

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, 28 August 2007

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, Mr. Wang Ming You and Mr. Qian Wu; and the independent non-executive directors of the Company are Mr. Goh Gen Cheung, Mr. Leung Wai Man, Roger and Mr. Zhou Xiao Xiong.