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

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**If you are in doubt** as to any aspect of this circular or as to the action to be taken, you should consult a licensed securities dealer, 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 to the purchaser or the 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 the transferee.

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**China Flavors and Fragrances Company Limited**  
**中國香精香料有限公司**

*(incorporated in the Cayman Islands with limited liability)*

**(Stock code: 3318)**

**DISCLOSEABLE TRANSACTION**

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

**Financial Adviser**



**Galileo Capital Limited**  
**嘉利盈融資有限公司**

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## DEFINITIONS

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*In this circular, the following expressions have the meanings set out below unless the context requires otherwise.*

“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 Acquisition 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

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## DEFINITIONS

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“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

*In this circular, for the purpose of illustration only, amounts quoted in RMB have been converted into HK\$ at the rate of RMB1.00 to HK\$1.0309. Such exchange rate has been used, where applicable, for purposes of illustration only and does not constitute a representation that any amounts were or may have been exchanged at these or any other rates or at all.*

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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. Wong Ming Bun (*Chairman*)  
Mr. Wang Ming Fan (*Chief Executive Officer*)  
Mr. Wang Ming You  
Mr. Li Qing Long  
Mr. Qian Wu

*Independent non-executive directors:*

Mr. Goh Gen Cheung  
Mr. Leung Wai Man, Roger  
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

*Principal place of business  
in Hong Kong:*

Offices 4-5, 15/F.,  
Kwan Chart Tower,  
No. 6 Tonnochy Road,  
Wanchai,  
Hong Kong

12 September 2007

*To Shareholders of the Company*

Dear Sir or Madam,

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

#### **INTRODUCTION**

On 28 August 2007, the Company announced 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 Citowell at the Consideration of HK\$120,000,000. The sole asset of Citowell is 50% equity interest in WT.

The Acquisition constitutes a discloseable transaction for the Company under Chapter 14 of the Listing Rules. The purpose of this circular is to give you further details of the Agreement and other information of the Group.

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## LETTER FROM THE BOARD

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### THE AGREEMENT

<b>Date:</b>	28 August 2007
<b>Parties:</b>	
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 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

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) and are not connected persons (as defined in the Listing Rules) of the Company.

### 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

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## LETTER FROM THE BOARD

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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

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## LETTER FROM THE BOARD

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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 2007 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.



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## LETTER FROM THE BOARD

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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. The Company did not have any prior transactions with the Vendor or Guarantor that require aggregation under Rule 14.22 of the Listing Rules.

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. Save as disclosed, the Acquisition does not have any material effect on the assets, liabilities and earnings of the Group.

### 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%. For use in this circular and for illustration purpose only, conversion of Renminbi into HK\$ is based on the approximate exchange rate of RMB1.00 to HK\$1.0309.

### ADDITIONAL INFORMATION

Your attention is drawn to the information set out in the appendix to this circular.

Yours faithfully,  
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*

## 1. RESPONSIBILITY STATEMENT

This circular includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Company. The Directors collectively and individually accept full responsibility for the accuracy of the information contained in this circular and confirm, having made all reasonable enquiries, that to the best of their knowledge and belief, there are no other facts the omission of which would make any statement herein misleading.

## 2. DIRECTORS' INTERESTS IN SECURITIES

- (a) As at the Latest Practicable Date, the interests and short positions of each Director in the shares or underlying shares of the Company and its associated corporations (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions in which he was deemed or taken to have under such provisions of the SFO), or which were required, pursuant to section 352 of the SFO, to be entered in the register maintained by the Company referred to therein, or which were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers contained in the Listing Rules, to be notified to the Company and the Stock Exchange were as follows:

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

<b>Name of Director</b>	<b>Capacity/Nature of interest</b>	<b>Number of shares</b>	<b>Percentage of issued shares</b>
Mr. Wong Ming Bun	Interest in a controlled corporation ( <i>Note 2</i> )	247,143,000 (L)	51.15%

*Notes:*

- The letter "L" denotes a long position in the shares of the Company.
- By virtue of the SFO, Mr. Wong Ming Bun is deemed to be interested in all the 245,661,000 shares held by Creative China Limited in which 52.45% of its issued share capital is owned by Mr. Wong Ming Bun.

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

Name of Director	Class and number of Shares held in associated corporation	Percentage of issued Shares
Mr. Wong Ming Bun	5,245 ordinary shares	52.45%
Mr. Wang Ming Fan	1,593 ordinary shares	15.93%
Mr. Wang Ming You	1,005 ordinary shares	10.05%
Mr. Li Qing Long	731 ordinary shares	7.31%

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

### 3. SUBSTANTIAL SHAREHOLDERS' INTERESTS IN SECURITIES

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

Name of shareholder	Capacity	Number of ordinary shares (Note 1)	Approximate percentage of interest
Creative China Limited	Beneficial owner	245,661,000 shares (L)	50.84%

*Note:*

1. The letter "L" represents the entity's interests in the shares of the Company.

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

#### **4. LITIGATION**

As at the Latest Practicable Date, neither the Company nor any of its subsidiaries was engaged in any litigation or claims of material importance and no litigation or claim of material importance is known to the Directors to be pending or threatened by or against the Company or any of its subsidiaries.

#### **5. DIRECTORS' SERVICE CONTRACTS**

Each of the Directors has entered into a service contract with the Company for an initial term of 36 months commencing on 9 December 2005 or 15 March 2007 (for Mr. Wang Ming You and Mr. Qian Wu). These contracts are only determinable by the Company upon occurrence of certain conditions as set out in these contracts or upon expiry of these contracts.

Other than disclosed above, none of the Directors has a service contract with the Company which is not determinable by the Company within one year without payment of compensation other than statutory compensation. As at the Latest Practicable Date, there was not any proposed Director or proposed service contract with Directors.

#### **6. COMPETING BUSINESS**

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

#### **7. MISCELLANEOUS**

- (a) The registered office of the Company is located at Century Yard, Cricket Square, Hutchins Drive, P. O. Box 2681 GT, George Town, Grand Cayman, Cayman Islands, British West Indies.
- (b) The head office and principal place of business of the Company in Hong Kong is at Offices 4-5, 15/F., Kwan Chart Tower, No. 6 Tonnochy Road, Wanchai, Hong Kong.

- (c) The company secretary and financial controller of the Company are Mr. Ma Man Wai and Mr. Lam Chi Ming, Francis respectively. Mr. Ma Man Wai is a member of the Hong Kong Institute of Certified Public Accountants and a certified practising accountant of CPA Australia. Mr. Lam Chi Ming, Francis is a qualified accountant and a member of both the Hong Kong Institute of Certified Public Accountants and Association of Certified Public Accountants.
- (d) The branch share registrar and transfer office of the Company is Tricor Investor Services Limited at 26th Floor, Tesbury Centre, 28 Queen's Road East, Hong Kong.
- (e) In the event of inconsistency, the English text of this circular shall prevail over the Chinese text.