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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 PROPOSED INCREASE IN AUTHORISED SHARE CAPITAL

THE BUSINESS TRANSFERS

Reference is made to the announcements of the Company dated 22 December 2015, 28 December 2015, 13 January 2016 and 3 February 2016 in relation to the potential Business Transfers to the Company. On 26 April 2016 (after trading hours),

1. the Company entered into the First Agreement with the First Vendor and the First Warrantors, pursuant to which the First Vendor shall sell the First Subject Business to the Company for a total consideration of RMB432,000,000, subject to the fulfillment of certain conditions precedent;
2. the Company entered into the Second Agreement with the Second Vendor and the Second Warrantors, pursuant to which the Second Vendor shall sell the Second Subject Business to the Company for a total consideration of RMB432,000,000, subject to the fulfillment of certain conditions precedent;
3. the Company entered into the Third Agreement with the Third Vendor and the Third Warrantors, pursuant to which the Third Vendor shall sell the Third Subject Business to the Company for a total consideration of RMB320,000,000, subject to the fulfillment of certain conditions precedent; and
4. the Company entered into the Fourth Agreement with the Fourth Vendor and the Fourth Warrantor, pursuant to which the Fourth Vendor shall sell the Fourth Subject Business to the Company for a total consideration of RMB368,000,000, subject to the fulfillment of certain conditions precedent.

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 constitute 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 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

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.

A circular containing, 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 will be despatched to the Shareholders as soon as practicable in accordance with the requirements of the Listing Rules which is expected to be on or before 31 May 2016 as additional time is required for the preparation for the relevant information for inclusion in the circular.

BACKGROUND

Reference is made to the announcements of the Company dated 22 December 2015, 28 December 2015, 13 January 2016 and 3 February 2016 in relation to the potential Business Transfers to the Company (the "Announcements"). Further to the memorandums of understanding entered into by the Company and the respective Vendors, the terms of which have been disclosed in the Announcements, the Company has entered into the Agreements with the Vendors in respect of the Business Transfers on 26 April 2016 (after trading hours).

Details of the Agreements are summarized below:

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.

Subject matter to be acquired

The Company will acquire the First Subject Business as a going concern, which includes but not limited to the formula for manufacturing tobacco flavor, information of the suppliers and customers and the relevant contracts signed of the First Vendor (to the exclusion of the fixed assets, office and production facilities and vehicles of the First Vendor).

Consideration

The consideration for acquiring the First Subject Business is RMB432,000,000 (equivalent to approximately HK\$509,760,000). As at the date of this announcement, 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 First Agreement 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 First Agreement 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 First Agreement Completion Date;

- (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 First Agreement 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 First Agreement 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 First Agreement 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 First Agreement 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 First Agreement Completion Date. 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.

The consideration was determined based on arm’s length negotiations between the First Vendor and the Company with reference to, *inter alia*, the profit guarantee of the First Vendor and First Warrantors in respect of the First Subject Business.

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 First Agreement Completion Date; and
- (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 shall take place within 7th Business Day after the conditions precedents have been fulfilled (or such other date as agreed between the Company and the First Vendor in writing).

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 obtained within 6 months from the First Agreement 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 First Agreement Completion Date to the first anniversary date of the First Agreement Completion Date (both days inclusive); (2) from the first anniversary date to the second anniversary date of the First Agreement Completion Date (both days inclusive); and (3) from the second anniversary date to the third anniversary date of the First Agreement 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.

SECOND AGREEMENT

Date

26 April 2016 (after trading hours)

Parties

Second Vendor: Shenzhen Da Herong Spice Company Limited*
(深圳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.

Subject matter to be acquired

The Company will acquire the Second Subject Business as a going concern, which includes but not limited to the formula for manufacturing tobacco flavor, information of the suppliers and customers and the relevant contracts signed of the Second Vendor (to the exclusion of the fixed assets, office and production facilities and vehicles of the Second Vendor).

Consideration

The consideration for acquiring the Second Subject Business is RMB432,000,000 (equivalent to approximately HK\$509,760,000). As at the date of this announcement, 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 Second Agreement 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 Second Agreement 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 Second Agreement Completion Date;
- (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 Second Agreement 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 Second Agreement 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 Second Agreement 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 Second Agreement 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 Second Agreement Completion Date. 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.

The consideration was determined based on arm's length negotiations between the Second Vendor and the Company with reference to, *inter alia*, the profit guarantee of the Second Vendor and Second Warrantors in respect of the Second Subject Business.

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 Second Agreement Completion Date; and
- (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 shall take place within 7th Business Day after the conditions precedents have been fulfilled (or such other date as agreed between the Company and the Second Vendor in writing).

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 Second Agreement 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 Second Agreement Completion Date to the first anniversary date of the Second Agreement Completion Date (both days inclusive); and (2) from the first anniversary date to the second anniversary date of the Second Agreement Completion Date (both days inclusive); and (3) from the second anniversary date to the third anniversary date of the Second Agreement 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.

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.

Subject matter to be acquired

The Company will acquire the Third Subject Business as a going concern, which includes but not limited to the formula for manufacturing tobacco flavor, information of the suppliers and customers and the relevant contracts signed (to the exclusion of the fixed assets, office and production facilities and vehicles of the Third Vendor).

Consideration

The consideration for acquiring the Third Subject Business is RMB320,000,000 (equivalent to approximately HK\$377,600,000). As at the date of this announcement, 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 Third Agreement 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 Third Agreement 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 Third Agreement Completion Date;
- (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 Third Agreement 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 Third Agreement 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 Third Agreement 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 Third Agreement Completion Date;

- (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 Third Agreement Completion Date. 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.

The consideration was determined based on arm’s length negotiations between the Third Vendor and the Company with reference to, *inter alia*, the profit guarantee of the Third Vendor and Third Warrantors in respect of the Third Subject Business.

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 Third Agreement Completion Date; and
- (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 shall take place within 7th Business Day after the conditions precedents have been fulfilled (or such other date as agreed between the Company and the Third Vendor in writing).

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 Third Agreement 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 Third Agreement Completion Date to the first anniversary date of the Third Agreement Completion Date (both days inclusive); (2) from the first anniversary date to the second anniversary date of the Third Agreement Completion Date (both days inclusive); and (3) from the second anniversary date to the third anniversary date of the Third Agreement 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.

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.

Subject matter to be acquired

The Company will acquire the Fourth Subject Business as a going concern, which includes but not limited to the formula for manufacturing tobacco flavor, information of the suppliers and customers and the relevant contracts signed of the Fourth Vendor (to the exclusion of the fixed assets, office and production facilities and vehicles of the Fourth Vendor).

Consideration

The consideration for acquiring the Fourth Subject Business is RMB368,000,000 (equivalent to approximately HK\$434,240,000). As at the date of this announcement, 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 Fourth Agreement 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 Fourth Agreement 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 Fourth Agreement Completion Date;
- (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 Fourth Agreement 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 Fourth Agreement 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 Fourth Agreement Completion Date. 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.

The consideration was determined based on arm’s length negotiations between the Fourth Vendor and the Company with reference to, *inter alia*, the profit guarantee of the Fourth Vendor and Fourth Warrantors in respect of the Fourth Subject Business.

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 Fourth Agreement 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, subject to the liability of any party to the other in respect of the antecedent breaches of the terms pursuant to the Fourth Agreement. Notwithstanding anything to the contrary in 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 shall take place within 7th Business Day after the conditions precedents have been fulfilled (or such other date as agreed between the Company and the Fourth Vendor in writing).

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 Fourth Agreement 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 Fourth Agreement Completion Date to the first anniversary date of the Fourth Agreement Completion Date (both days inclusive); and (2) from the first anniversary date to the second anniversary date of the Fourth Agreement 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.

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.

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 “ Distribution ”).
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

- 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 the Company will be in breach of the Listing Rules or The Codes on Takeovers and Mergers and Share Repurchases immediately following such Conversion
- 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
- (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

An aggregate of 378,544,000 Conversion Shares will be allotted and issued by the Company upon full conversion of the PSCS at the initial Conversion Price. Assuming there is no change in the issued share capital of the Company from the date of this announcement 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 date of this announcement; and
- (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 17.6% over the closing price of HK\$2.55 per Share as quoted on the Stock Exchange on the date of this announcement; and
- (b) 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 this announcement.

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.

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.

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 announcement 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 announcement; (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 announcement		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
Second Vendor	—	—	—	—	95,580,000	9.12
Third Vendor	—	—	—	—	86,533,333	8.26
Fourth Vendor	—	—	—	—	79,610,667	7.60
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>100.00</u>	<u>669,402,897</u>	<u>100.00</u>	<u>1,047,946,897</u>	<u>100.00</u>

Notes:

- (1) As at the date of this announcement, 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.
- (2) As at the date of this announcement, 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.

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 constitute 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.

The current authorized 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 announcement.

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 8 May 2015, the Shareholders had granted a general mandate to issue a maximum of 125,756,777 Shares. Such mandate will lapse at the conclusion of the AGM. It is proposed to refresh the mandate at the annual general meeting to be held on 13 May 2016 to 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 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.

GENERAL

An EGM will be convened and held for the Shareholders to consider and, if thought fit, approve the issuance of the Conversion Shares under the Specific Mandate. A circular containing, 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 will be despatched to the Shareholders as soon as practicable in accordance with the requirements of the Listing Rules which is expected to be on or before 31 May 2016 as additional time is required for the preparation of the relevant information for inclusion in the circular.

DEFINITIONS

In this announcement, unless the context otherwise requires, the following expressions shall have the following meanings when used herein:

“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
“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
“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
“First Agreement Completion Date”	the 7th Business Day after the fulfillment or waiver of all the conditions precedent stipulated in the First Agreement (or such other date as agreed between the Company and the First Vendor in writing)
“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 Agreement Completion Date”	the 7th Business Day after the fulfillment or waiver of all the conditions precedent stipulated in the Fourth Agreement (or such other date as agreed between the Company and the Fourth Vendor in writing)
“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 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
“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
“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 announcement, 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

“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 Agreement Completion Date”	the 7th Business Day after the fulfillment or wavier of all the conditions precedent stipulated in the Second Agreement (or such other date as agreed between the Company and the Second Vendor in writing)
“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
“Second Vendor”	Shenzhen Da Herong Spice Company Limited* (深圳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 Agreement Completion Date”	the 7th Business Day after the fulfillment or wavier of all the conditions precedent stipulated in the Third Agreement (or such other date as agreed between the Company and the Third Vendor in writing)
“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)

