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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)

MEMORANDUM OF UNDERSTANDING IN RESPECT OF THE PROPOSED ACQUISITION

The Board is pleased to announce that on 11 November 2015 (after trading hours), the Vendors and the Company entered into the MOU pursuant to which the Vendors proposed to sell to the Company and the Company proposed to purchase from the Vendors the entire issued share capital of the Target Company.

Pursuant to the MOU, the Vendors shall not (and shall procure their agents and advisers not to) during the Exclusivity Period directly or indirectly negotiate with any third party on any sale or transfer of any shares or material assets of the Target Group. The Formal Agreement will be entered into by the parties within 10 days upon completion of the DD Review on the Target Group (or such other date as the Vendor and the Company may agree) by the Company and the result of which is to the satisfaction of the Company.

Pursuant to the MOU, the Company shall pay the Vendors the Deposit in the amount of RMB3 million (equivalent to approximately HK\$3.6 million) as earnest money.

The Board wishes to emphasise that the Proposed Acquisition may or may not materialise and shareholders of the Company and potential investors are advised to exercise caution when dealing in the Shares.

MOU

Date: 11 November 2015 (after trading hours)

Parties:

- (i) China Flavors and Fragrances Company Limited, as the purchaser; and
- (ii) Ree Jia Limited, Ree Jie Limited, Ree Min Limited, Ree Lin Limited, Ree Zhi Limited and Ree Fen Limited, together as the Vendors

The Vendors are companies incorporated in the British Virgin Islands. To the best knowledge, information and belief of the Directors, having made all reasonable enquiries, the Vendors and their ultimate beneficial owners are Independent Third Parties not connected with the Company and its connected person (as defined in the Listing Rules).

Subject matter of the MOU

The Company proposed to purchase the entire issued share capital of the Target Company, a company incorporated in the Cayman Islands.

Pursuant to the MOU, the Vendors shall not (and shall procure their agents and advisers not to) during the Exclusivity Period directly or indirectly negotiate with any third party on any sale or transfer of any shares or material assets of the Target Group. The Formal Agreement will be entered into by the parties within 10 days upon completion of the DD Review (“**Formal Agreement Timeline**”) on the Target Group (or such other date as the Vendor and the Company may agree) by the Company and the result of which is to the satisfaction of the Company.

The Vendors shall provide to the Company and/or procure the Company’s access to all records and documents of the Vendors and the Target Group forthwith upon request for DD Review purpose and to respond forthwith to the enquiries of the Company.

Deposit

Pursuant to the MOU, the Company shall pay the Vendors the Deposit in the amount of RMB3 million (equivalent to approximately HK\$3.6 million) as earnest money, which shall be paid upon the signing of the MOU.

In the event that the Formal Agreement is entered into between the Vendors and the Company, the Deposit shall be applied as partial payment of the consideration for the Proposed Acquisition in accordance with the terms of the Formal Agreement.

Termination

The MOU will be terminated and the Deposit will be returned if, *inter alia*, (a) the Company is in its absolute discretion not satisfied with the results of the DD Review upon or before the expiry of the Exclusivity Period; or (b) the Company is satisfied with the results of the DD Review but the Vendors reject or fail to enter into the Formal Agreement within the Formal Agreement Timeline; or (c) the parties fail to enter into the Formal Agreement upon the expiry of the Exclusivity Period.

INFORMATION OF THE TARGET COMPANY AND THE TARGET GROUP

The Target Company is an investment holding company incorporated in the Cayman Islands.

The Target Group has been established for more than 10 years and is principally engaged in the research, development, production and sale of electronic cigarettes with the production base in the PRC. Patents have been obtained in respect of certain design of the relevant devices of the electronic cigarettes of the Target Group. The products of the Target Group are sold in the PRC, the United States of America and Europe.

REASON FOR ENTERING INTO THE MOU

The terms of the MOU were arrived at after arm's length negotiations between the Company and the Vendors. The payment of the Deposit will be funded by the internal resources of the Group. The Directors consider that the transactions contemplated by the MOU are on normal commercial terms and the terms of the MOU are fair and reasonable and are in the interests of the Company and its shareholders as a whole.

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 customer goods.

The Directors consider that the Proposed Acquisition would provide an opportunity for the Group to participate in the electronic cigarette market in the PRC and will further enhance the investment portfolio and future earnings of the Group.

The Board wishes to emphasise that notwithstanding the payment of the Deposit, the Proposed Acquisition may or may not materialise and shareholders of the Company and potential investors are advised to exercise caution when dealing in the Shares.

DEFINITIONS

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

“Board”	the board of Directors
“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 and the shares of which are listed on the Stock Exchange (stock code: 3318)
“DD Review”	the due diligence review to be conducted by the Company on the Target Group within 1 month from the date of MOU (or such other date as the Vendor and the Company may agree) pursuant to the MOU

“Deposit”	a refundable deposit of RMB3 million (equivalent to approximately HK\$3.6 million) payable by the Company to the Vendors as earnest money to the Proposed Acquisition
“Director(s)”	the director(s) of the Company
“Exclusivity Period”	the period of 1 month from the date of the MOU (or such other date as the Vendor and the Company may agree)
“Formal Agreement”	the formal agreement to be entered into between the Vendors and the Company in relation to the Proposed Acquisition
“Group”	the Company and its subsidiaries
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Independent Third Parties”	a person(s) or company(ies) which is/are independent of and not connected with any of our Directors, chief executive or substantial shareholders of the Company, its subsidiaries or any of its respective associates
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange;
“MOU”	the memorandum of understanding dated 11 November 2015 entered into between the Vendors and the Company in relation to the Proposed Acquisition
“PRC”	the People’s Republic of China which, for the purpose of this announcement, excludes Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan
“Proposed Acquisition”	the proposed acquisition of the entire issued share capital of the Target Company by the Company from the Vendors
“RMB”	Renminbi, the lawful currency of the PRC
“Share(s)”	ordinary share(s) of HK\$0.10 each in the share capital of the Company
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Target Company”	Kimree, Inc., a company incorporated in the Cayman Islands with limited liability owned by the Vendors collectively
“Target Group”	Target Company and its subsidiaries

“Vendors”

Ree Jia Limited, Ree Jie Limited, Ree Min Limited, Ree Lin Limited,
Ree Zhi Limited and Ree Fen Limited

By Order of the Board
China Flavors and Fragrances Company Limited
Wang Ming Fan
Chairman

Hong Kong, 11 November 2015

For the purpose of illustration only and unless otherwise stated, conversion of RMB into Hong Kong dollars in this announcement is based on the exchange rate of RMB1.00 to HK\$1.2. Such conversion should not be construed as a representation that any amount has been, could have been, or may be, exchanged at this or any other rate.

As at the date of this announcement, the Board comprises seven Directors, namely Mr. Wang Ming Fan, Mr. Li Qing Long and Mr. Qian Wu as executive Directors, Ms. Sy Wai Shuen as non-executive Director and Mr. Leung Wai Man, Roger, Mr. Ng Kwun Wan and Mr. Zhou Xiao Xiong as independent non-executive Directors.