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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)

MAJOR TRANSACTION **ACQUISITION OF THE ENTIRE ISSUED SHARE CAPITAL IN** **KIMREE, INC.**

THE ACQUISITION AGREEMENT

Reference is made to the announcements of the Company dated 11 November 2015 and 17 December 2015 in relation to the potential Acquisition by the Company.

On 25 January 2016 (after trading hours), the Company entered into the Acquisition Agreement with the Vendors and the Warrantors pursuant to which the Vendors have conditionally agreed to sell the Sale Shares and the Company has conditionally agreed to purchase the Sale Shares for a total consideration of RMB750,000,000 (equivalent to approximately HK\$900,000,000) in cash.

LISTING RULES IMPLICATIONS

Since the applicable percentage ratios under Rule 14.07 of the Listing Rules exceed 25% but are less than 100%, the Acquisition constitutes a major transaction of the Company and is subject to the reporting, announcement and Shareholders' approval requirements under the Listing Rules.

To the best of the knowledge, information and belief of the Directors, after having made all reasonable enquiries, no Shareholders or any of their respective associates have any material interest in the Acquisition. As such, no Shareholders would be required to abstain from voting in favour of the resolution approving the Acquisition. As at the date of this announcement, the Relevant Shareholders, being a closely allied group of Shareholders, control an aggregate of 416,742,327 Shares, which represents approximately 62.26% of the total number of issued shares of the Company. Accordingly, pursuant to Rule 14.44 of the Listing Rules, written Shareholders' approval may be accepted in lieu of holding a general meeting of the Company to approve the terms of, and the transactions contemplated, under the Acquisition Agreement upon satisfaction of the conditions set out under Rule 14.44 of the Listing Rules.

A circular containing, amongst other things, further details about the Acquisition Agreement and the Acquisition will be despatched to the Shareholders. As it is expected that additional time will be required to prepare the relevant information to be included in the circular, the Company will apply to the Stock Exchange for an extension of time for despatch of the circular by no later than 19 February 2016.

Shareholders and potential investors should note that the Acquisition contemplated under the Acquisition Agreement is subject to satisfaction of certain conditions precedent and it may or may not be completed. Shareholders and potential investors are therefore advised to exercise caution when dealing in the Shares.

Reference is made to the announcements of the Company dated 11 November 2015 and 17 December 2015 in relation to the potential Acquisition by the Company. Further to the memorandum of understanding entered into by the Vendors and the Company, the terms of which have been disclosed in the announcement dated 11 November 2015, the Company has entered into the Acquisition Agreement.

ACQUISITION AGREEMENT

Date

25 January 2016 (after trading hours)

Parties

Vendors:

- (1) Ree Jia Limited, holding 17.5% of the entire issued share capital in the Target Company;
- (2) Ree Jie Limited, holding 16.5% of the entire issued share capital in the Target Company;
- (3) Ree Min Limited, holding 16.5% of the entire issued share capital in the Target Company;
- (4) Ree Lin Limited, holding 16.5% of the entire issued share capital in the Target Company;
- (5) Ree Zhi Limited, holding 16.5% of the entire issued share capital in the Target Company; and
- (6) Ree Fen Limited, holding 16.5% of the entire issued share capital in the Target Company

Warrantors:

- (1) Zhang Jian, the legal and beneficial owner of Ree Jia Limited;
- (2) Ai Jianjie, the legal and beneficial owner of Ree Jie Limited;
- (3) Liu Qiuming, the legal and beneficial owner of Ree Min Limited;
- (4) Jiang Lingfan, the legal and beneficial owner of Ree Lin Limited;
- (5) Xiang Zhiyong, the legal and beneficial owner of Ree Zhi Limited; and
- (6) Yu Dafeng, the legal and beneficial owner of Ree Fen Limited

Purchaser: The Company

To the best of the Directors' knowledge, information and belief having made all reasonable enquiries, each of the Vendors and the Warrantors (being the legal and ultimate beneficial owner of the Vendors) are Independent Third Parties.

Interests to be acquired

The Company has agreed to acquire from the Vendors the Sale Shares, representing the entire issued share capital of the Target Company as at Completion, free from all encumbrances and together with all rights attaching and accruing thereto from the date of the Acquisition Agreement.

Consideration

The Consideration for the Sale Shares is RMB750,000,000 (equivalent to approximately HK\$900,000,000). As at the date of this announcement, an aggregate amount of RMB37,500,000 (equivalent to approximately HK\$45,000,000) has been paid by the Company, which shall be applied as partial settlement of the Consideration. The balance of the Consideration shall be satisfied by the Company in the following manner:

- (a) RMB200,000,000 (equivalent to approximately HK\$240,000,000) cash shall be paid by the Company to the Vendors within 5 business days after the condition precedent (a), as stated in the paragraph headed “Conditions Precedent” in this announcement, having been fulfilled;
- (b) RMB362,500,000 (equivalent to approximately HK\$435,000,000) cash shall be paid by the Company to the Vendors within 20 business days after the Completion Date subject to the fulfillment of all the conditions precedent;
- (c) RMB41,208,800 (equivalent to approximately HK\$49,450,560) cash shall be paid by the Company to the Vendors (or the nominee(s) of the Vendors) if the Audited Consolidated Net Profit of the Target Company for the financial year of 2016 is not less than RMB60,000,000 (equivalent to approximately HK\$72,000,000). The Company shall pay within 10 business days from the date the relevant audit was completed by the Auditor, which shall take place within 2 months from the financial year end of 2016;
- (d) RMB49,450,500 (equivalent to approximately HK\$59,340,600) cash shall be paid by the Company to the Vendors (or the nominee(s) of the Vendors) if the Audited Consolidated Net Profit of the Target Company for the financial year of 2017 is not less than RMB72,000,000 (equivalent to approximately HK\$86,400,000). The Company shall pay within 10 business days from the date the relevant audit was completed by the Auditor, which shall take place within 2 months from the financial year end of 2017;
- (e) RMB59,340,700 (equivalent to approximately HK\$71,208,840) cash shall be paid by the Company to the Vendors (or the nominee(s) of the Vendors) if the Audited Consolidated Net Profit of the Target Company for the financial year of 2018 is not less than RMB86,400,000 (equivalent to approximately HK\$103,680,000). The

Company shall pay within 10 business days from the date the relevant audit was completed by the Auditor, which shall take place within 2 months from the financial year end of 2018.

In the event that the Audited Consolidated Net Profit of the Target Company in respect of any financial year of 2016, 2017 or 2018 is less than the RMB60,000,000, RMB72,000,000 and RMB86,400,000 respectively (equivalent to approximately HK\$72,000,000, HK\$86,400,000 and HK\$103,680,000 respectively), the amount payable under items (c), (d) and (e) above shall be reduced accordingly by the amount of shortfall (the “**Profit Shortfall**”). If the relevant amount payable under items (c), (d) and (e) above is not sufficient to offset the amount of Profit Shortfall, the Vendors and the Warrantors shall compensate the amount of difference after the aforesaid offset.

The Consideration was arrived at after arm’s length negotiations between the Vendors and the Company on normal commercial terms having taken into consideration of the historical and current financial position and the profitability of the Target Group; and also the profit guarantee of the Vendors as set out in the Acquisition Agreement.

Based on the aforesaid, the Directors consider that the terms and conditions of the Acquisition, including the Consideration, are fair and reasonable and are in the interests of the Company and the Shareholders as a whole.

The Consideration will be financed by the Company primarily through internal cash resources and bank borrowings and if required, debt and equity fund raising and/or other means.

Conditions precedent

Completion is conditional upon the fulfillment of, *inter alia*, the following conditions:

- (a) the Company having obtained the approval from the Stock Exchange in respect of the announcement in respect of the Acquisition;
- (b) the Acquisition Agreement and the transactions contemplated thereunder having been approved by the Shareholders in accordance with the Listing Rules and all applicable laws and regulations;
- (c) the Target Company having repaid all shareholders’ loans (if any);
- (d) the audited consolidated net profit of the Target Company shall not be less than RMB39,000,000 (equivalent to approximately HK\$46,800,000) and the consolidated revenue of the Target Company shall not be less than RMB220,000,000 (equivalent to approximately HK\$264,000,000) as at the date of the Completion Accounts;

- (e) the Completion Accounts showing that as of the date of the Completion Accounts, the working capital available to the Target Group shall be sufficient for the Target Group's ordinary business for at least 12 months from the date of the Completion Accounts and the total liabilities shall not exceed RMB30,000,000 (equivalent to approximately HK\$36,000,000);
- (f) the shareholders, the connected persons and other relevant persons of the Target Group (the "**IP Rights Holders**") holding the intellectual property rights in use by the Target Group (the "**IP Rights**") having entered into assignment or licensing agreements or other agreements (the form and content of which to the satisfaction of the Company at its absolute discretion) to assign the ownership of the IP Rights to the Target Group at nil consideration and if the same is not permissible by law, the IP Rights Holders shall have entered into agreements or arrangements to allow the use of the IP Rights by the Target Group at nil consideration for an indefinite period of time;
- (g) the Vendors having provided a legal opinion issued by the lawyers approved of by the Company as of the Completion Date (the form and content of which to the satisfaction of the Company at its absolute discretion) in respect of the Target Group's current business activities and the Vendors having provided to the Company the relevant resolutions, consents, approvals, authorizations and permits in relation to the Acquisition Agreement and the transactions contemplated thereunder; and
- (h) the warranties, guarantees and undertakings given by the Vendors are true and accurate as at the Completion Date and the Vendors have performed or complied with such warranties, guarantees and undertakings on or before the Completion Date.

The Company may waive any or all conditions precedent, save and except conditions (a) and (b) above. 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 Acquisition 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 Acquisition Agreement. In that case, the Vendors shall refund any sums received from the Company.

Completion

Completion of the Acquisition Agreement shall take place on the 3rd Business Day after all conditions precedent are fulfilled or waived by the Company (or such other date as agreed between the Company and the Vendors).

Profit Guarantee of the Vendors

The Vendors warrant that in respect of each of the financial period from 2016 to 2018 of the Target Company:

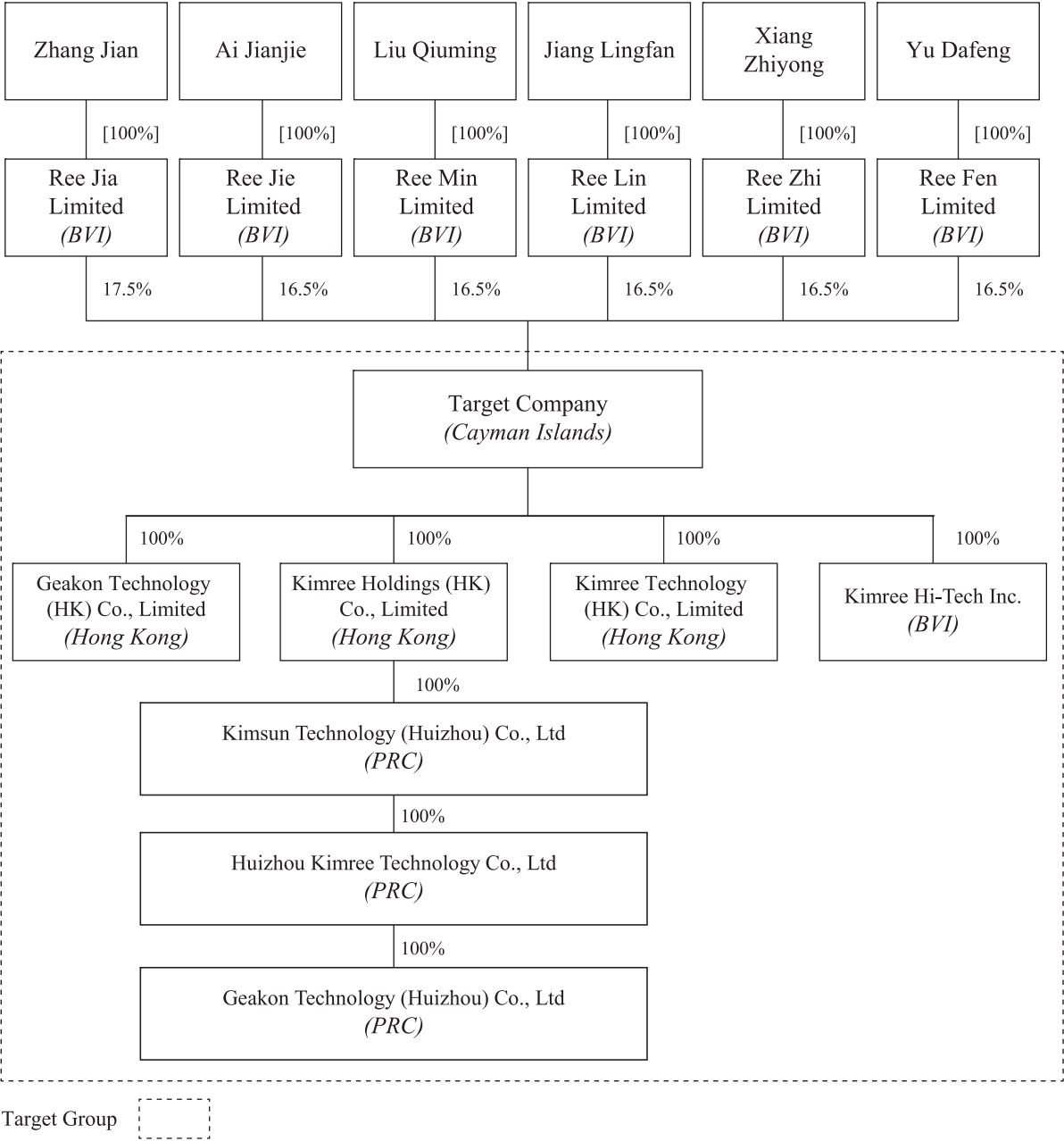
- (a) the Audited Consolidated Net Profit for the financial year of 2016 of the Target Company shall not be less than RMB60,000,000 (equivalent to approximately HK\$72,000,000);
- (b) the Audited Consolidated Net Profit for the financial year of 2017 of the Target Company shall not be less than RMB72,000,000 (equivalent to approximately HK\$86,400,000); and
- (c) the Audited Consolidated Net Profit for the financial year of 2018 of the Target Company shall not be less than RMB86,400,000 (equivalent to approximately HK\$103,680,000).

If the Audited Consolidated Net Profit is not achieved in a relevant financial year, the Consideration shall be adjusted downwards by deducting the shortfall and without prejudice to any other rights and remedies of the Company, the Company may sue for relevant amount resulting from the breach of the profit guarantee of the Vendors.

The Warrantors guarantee the performance of the above warranties by the Vendors.

INFORMATION OF THE VENDORS AND THE TARGET GROUP

The shareholding structure of the Target Group as at the date of this announcement is shown below:



To the best of the Directors' knowledge, information and belief, the Vendors are investment holding companies and their respective sole investment is the shareholding interests in the Target Company. The Vendors have been engaged in the electronic cigarette company for over ten years.

The Target Company was incorporated in the Cayman Islands on 7 May 2014. The Target Group is a world-leading electronic cigarette company group which has been established for over ten years and is principally engaged in the research and development, manufacture and sale of electronic cigarettes and related accessories in the PRC, Europe and the United States. The Target Group has a strong customer base in over twenty countries which includes a majority of the five largest global tobacco companies as well as top independent electronic cigarette brands. The Group is a supplier of flavors to the Target Group for use in its production of electronic cigarettes.

Based on the financial information of the Target Group provided by the Vendors, the unaudited consolidated net asset value of the Target Group as of 31 December 2015 was approximately HK\$181.3 million (equivalent to approximately RMB151.1 million). Further financial information of the Target Group is set out below:

| | For the year ended 31 December 2014 | For the year ended 31 December 2015 |
|--|--|--|
| | (unaudited) | (unaudited) |
| | <i>(HK\$'000)</i> | <i>(HK\$'000)</i> |
| Net profit (before taxation and extraordinary items) | 210,078 | 65,962 |
| Net profit (after taxation and extraordinary items) | 156,864 | 48,509 |

REASONS FOR AND BENEFITS OF THE ACQUISITION

The Company 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 Board believes that the Acquisition represents a valuable business opportunity for both the Company and the Target Company in the following ways:

1. The Target Group is currently an original design manufacturer of electronic cigarette. With our capabilities and support on the research and development of e-liquid (which is the flavor supplied by the Group to the Target Group for manufacturing electronic cigarettes), the Target Group will become an integrated manufacturer of electronic cigarette. The Board believes such development of the Target Group will enhance its market share and leadership in the electronic cigarette market which will as a result be beneficial to the Group as the Target Group will become a wholly owned subsidiary of the Group after completion of the Acquisition.
2. The sales of the Target Group is mainly in overseas. The Group has established sales network in the PRC to state-owned enterprises. After the Acquisition, the electronic cigarettes can be distributed in the Group's existing established network in the PRC which can enhance the sales of the electronic cigarettes of the Target Group. As people are becoming more health conscious, consumption of electronic cigarettes will increase as an alternative or substitute for tobacco cigarettes. As such, the Board believes that the Group's revenue base will be broadened with the sale of electronic cigarettes and the Group's product portfolio will be diversified.
3. An electronic cigarette composes of a device which transforms e-liquid into inhalable form. Such device is also used with pharmaceutical and health supplement products for children and elderly which transforms such health supplement products from liquid form to inhalable form for more convenient intake and less irritation. The Board believes that with the source of such device and the knowledge and expertise in such technology of applying the same, the Group may have synergy with and tap into the health care industry by co-operating with health chain store as a solution provider in respect thereof. The development of health care-related business will be a new segment to the Group and the Board is optimistic towards the prospects of the health care industry in the PRC with the increase of living standard and health awareness of the people in the PRC.

The Board considers that the Acquisition Agreement was entered into after arm's length negotiation between the Company and the Vendors on normal commercial terms and the Acquisition is fair and reasonable and in the interests of the Company and the Shareholders as a whole.

LISTING RULES IMPLICATIONS

Since the applicable percentage ratios under Rule 14.07 of the Listing Rules exceed 25% but are less than 100%, Acquisition constitutes a major transaction of the Company and is subject to the reporting, announcement and Shareholders' approval requirements under the Listing Rules.

To the best of the knowledge, information and belief of the Directors, after having made all reasonable enquiries, no Shareholders or any of their respective associates have any material interest in the Acquisition. As such, no Shareholders would be required to abstain from voting in favour of the resolution approving the Acquisition. As at the date of this announcement, the Relevant Shareholders, being a closely allied group of Shareholders, control an aggregate of 416,742,327 Shares, which represents approximately 62.26% of the total number of issued shares of the Company. Accordingly, pursuant to Rule 14.44 of the Listing Rules, written Shareholders' approval may be accepted in lieu of holding a general meeting of the Company to approve the terms of, and the transactions contemplated, under the Acquisition Agreement upon satisfaction of the conditions set out under Rule 14.44 of the Listing Rules.

The Relevant Shareholders are Mr. Wang, Creative China Limited and Full Ashley Enterprises Limited which are interested in 10.14%, 49.38% and 2.74% of the Company's shareholding respectively as at the date of this announcement. Mr. Wang is the legal and beneficial owner as to 41.19% shareholding interest in Creative China Limited and 100% shareholding interest in Full Ashley Enterprises Limited. As such, the Relevant Shareholders are a closely allied group of Shareholders.

A circular containing, amongst other things, further details about the Acquisition Agreement and the Acquisition will be despatched to the Shareholders. As it is expected that additional time will be required to prepare the relevant information to be included in the circular, the Company will apply to the Stock Exchange for an extension of time for despatch of the circular by no later than 19 February 2016.

DEFINITIONS

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

| | |
|-------------------------|--|
| “Acquisition” | the acquisition of the entire issued share capital of the Target Company by the Company from the Vendors |
| “Acquisition Agreement” | the Acquisition Agreement dated 25 January 2016 entered into by the Vendors and the Company in relation to the Acquisition |

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| “associates” | has the meaning ascribed to it under the Listing Rules |
| “Audited Consolidated Net Profit” | the audited consolidated net profit after tax of the Target Company for each of the financial year end of 2016, 2017 and 2018 (as the case may be) ascertained after the relevant audit has been completed by the Auditor within 2 months after the relevant financial year end |
| “Auditor” | the auditor jointly appointed by the Company and the Vendors to complete the audit of the Target Company for the financial year end of 2016, 2017 and 2018 (as the case may be) |
| “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 |
| “BVI” | the British Virgin Islands |
| “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” | the completion of the Acquisition in accordance with the terms and conditions of the Acquisition Agreement |
| “Completion Accounts” | the unaudited balance sheets (as of a date within 30 days before the Completion Date) and the unaudited profit and loss accounts (for the period from 1 January 2015 to a date within 30 days before the Completion Date) of each of the companies in the Target Group provided by the Vendors, together with the consolidated accounts of the Target Group as of the date of the 7th day before the Completion Date |
| “Completion Date” | the 3rd Business Day after the fulfillment or waiver (as the case may be) of all the conditions precedent stipulated in the Acquisition Agreement (or such other date as agreed between the Company and the Vendors) |

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|-----------------------------|---|
| “connected person(s)” | has the meaning ascribed to it under the Listing Rules |
| “Consideration” | the total consideration of RMB750,000,000 (equivalent to approximately HK\$900,000,000) for the Acquisition pursuant to the Acquisition Agreement |
| “Director(s)” | director(s) of the Company |
| “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 |
| “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 |
| “Mr. Wang” | Mr. Wang Ming Fan, the executive director, chairman of the Board and Chief Executive Officer of the Company |
| “PRC” | the People’s Republic of China, and for the purposes of this announcement, excluding Hong Kong, Macau and Taiwan |
| “RMB” | Renminbi, the lawful currency of the PRC |
| “Relevant Shareholders” | Mr. Wang, Creative China Limited and Full Ashley Enterprises Limited |
| “Sale Shares” | 100,000,000 ordinary shares of US\$0.0005 each in the share capital of the Target Company, representing the entire issued share capital in the Target Company immediately before Completion |

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| “Share(s)” | ordinary share(s) of HK\$0.10 each in the share capital of the Company |
| “Shareholder(s)” | holder(s) of Shares |
| “Stock Exchange” | the Stock Exchange of Hong Kong Limited |
| “Target Company” | Kimree, Inc., a company incorporated in the Cayman Islands with limited liability |
| “Target Group” | the Target Company and its subsidiaries |
| “US\$” | United States dollars, the lawful currency of the United States |
| “Vendors” | the six vendors who are the shareholders of the Target Company, namely (1) Ree Jia Limited, (2) Ree Jie Limited, (3) Ree Min Limited, (4) Ree Lin Limited, (5) Ree Zhi Limited and (6) Ree Fen Limited |
| “Warrantors” | the six warrantors who are the respective ultimate beneficial owners of the vendors, namely Zhang Jian, Ai Jianjie, Liu Qiuming, Jiang Lingfan, Xiang Zhiyong, and Yu Daifeng |
| “%” | per cent |

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 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.

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

Hong Kong, 25 January 2016

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.