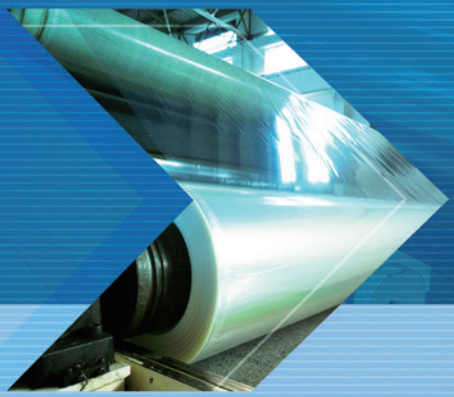
中国软包装控股有限公司
CHINA FLEXIBLE PACKAGING HOLDINGS LIMITED





# Annual Report 2015



www.cnflexpack.com



# STEADFAST COMMITMENT

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# MISSION & VISION

To be the preferred supplier of quality plastic packaging materials, offering quality products and services to meet the needs of customers.

To meet customers' plastic packaging material needs with innovative products and value creation, strengthened by technology, market insights and expertise.



# BASED ON SOLID FOUNDATION

# Corporate Profile

China Flexible Packaging Holdings Limited ("China Flexpack") is a leading manufacturer of Biaxially Oriented Polypropylene ("BOPP") film and synthetic paper in the People's Republic of China ("PRC").

Based in Jieyang City, Guangdong Province, China Flexpack produces a wide variety of BOPP film including high shrinkage film such as labeling film and tobacco film, and low shrinkage film such as pearlised film, matt film and plain films for printing, lamination and coating. We also produce synthetic paper, a packaging material with attributes of paper and plastic, commonly used in commercial packaging, printing, food, medical and cosmetical industries.

Our major customers are mainly from industries which require various kinds of plastic packaging materials such as food processing, tobacco and other light industries involving labeling, printing and gift wrapping.

Our current operating production lines have a total production capacity of 64,750 tonnes per annum. The production lines have the capabilities to manufacture high and low Shrinkage BOPP film, synthetic paper and five-layer high barrier film ("5-layer BOPP film") – a higher value BOPP film product which has high humidity-resistance, high capability to preserve freshness and high transparency, suitable for use in the vacuum packing of meat products which will prolong shelf life.

China Flexpack was listed on the Mainboard of The Singapore Exchange Securities Trading Limited in February 2004.





**JIEYANG CITY**

China Flexpack's manufacturing facilities are located in Jieyang City, Guangdong Province (广东省), China. Our production lines have the capacity to manufacture up to 64,750 tonnes of BOPP film annually.

# Chairman's Statement



**« To our valued shareholders, we present to you the annual report for the financial year ended 31 October 2015 ("FY2015"). »**

## DEAR SHAREHOLDERS,

On behalf of the Board of Directors and Management, I hereby present to you our audited financial results for the financial year ended 31 October 2015 ("FY2015").

## YEAR IN REVIEW

In FY2015, the Group suffered a gross loss of RMB109.6 million underpinned by a decline in revenue which fell 46.3% to RMB338.9 million. This was mainly because of lower average selling prices of our main product line – low shrinkage films, which suffered from keener competition, lower market demand, machinery issues that led to sub-standard products, while our high-margin products also experienced a significant decline in customer demand. These factors caused an adverse change in our product mix and yielded lower average selling prices and sales volumes.

The Group also recognised an impairment loss of RMB56.6 million in FY2015. The net loss attributable to shareholders in FY2015 was RMB182.3 million, compared to a net profit of RMB3.0 million in FY2014. The past year was one of the most challenging we have had to face since our incorporation in 1990. Our performance was adversely affected by external factors; such as increasing global economic uncertainty, China's slowing growth, in addition to our own internal operational challenges.

China's 3Q2015 growth was the slowest since 2009[1]. This was a reflection of the weakening manufacturing sector, which had been plagued by falling external and domestic demand, and had adversely impacted the packaging industry and our business as an upstream supplier of packaging materials.

During the year, the Group experienced a sharp contraction in demand for our products, especially in the higher margin product segment. This was further compounded by intense price competition.

The Group continued to be plagued by deficiencies in its production lines in FY2015 because of aging machinery. Despite our previous efforts to engage overseas vendors for repair works and replacement of parts, the machinery from two of our production lines located in the Peoples Republic of China continue to perform below expectations and some of the output did not meet the quality standards of our customers, resulting in a lower sales price for these sub-standard products.

In November 2015, the Group ceased the operations of one of our subsidiaries, Jieyang City Yuntong Plastic Packaging Co., Limited ("Yuntong"), which runs production line number 3 due to machinery issues and market price fluctuation in low shrinkage BOPP products. This line was set up in 2004 and mainly produced low cost BOPP products. Going forward, the Board may permanently close down the operation of the production line number 3 in 2016. The decision was made after conducting a feasibility analysis which included the following:

i. the past 24 months market demand for low cost BOPP product manufactured by Yuntong and the existing supply glut in the industry;

ii. the deteriorating machinery; and

iii. the upcoming lease expiry of the land on which around two third of Yuntong's factory sits on, and the high costs of disassembly and transportation.

Upon cessation of production line no. 3, the Group's sole production line is at no. 4 in Ruixing's premises.

Yuntong was a significant contributor to the Group. In FY2015, it generated 40% of the Group's total revenue (FY2014: 38%). However, Yuntong also had a net operating cash outflow of RMB68.7 million in FY2014 and FY2015 in aggregate. In comparison, Ruixing generated a net cash inflow from operating activities of RMB30.2 million in aggregate over the same period.

Overall, the Group believes a permanent stoppage of Yuntong's operations may limit losses while not having any adverse impact on the performance and liquidity of the Group in the next financial year. Notwithstanding the above, the Group is currently evaluating appropriate options for this production line to optimize value. The Group will keep shareholders informed of further developments with regard to Yuntong's assets.

## OUTLOOK AND FUTURE PLANS

The world's second largest economy is expected to miss its growth target of 7% in 2015 and economists have projected that growth in 2016 will slow to 6.7%[2] driven by weakness in the country's manufacturing sector.

China's slowing economic growth will affect the domestic BOPP industry which will have an impact on the competitive dynamics of our business. The Group expects to report an operating loss for the next reporting period and for the next 12 months.

The Board of Directors is also actively evaluating various strategic alternatives to enhance shareholder value. The Group is also exploring ways to increase productivity and efficiency and to work with potential strategic partners to improve performance.

## SHARE CONSOLIDATION

In August 2015, we completed a share consolidation exercise in order to meet the Singapore Securities Exchange Limited's Minimum Trading Price rule of S$0.20 per share. As part of the exercise, we consolidated every 100 ordinary shares of par value US$0.15 each in the authorised and issued share capital of the Group into one ordinary share of par value US$15.00. Following the consolidation, the Group's issued share capital now stands at 4,860,956.

## ACKNOWLEDGEMENT

On behalf of the Board, I would like to express my sincere thanks to our stakeholders for their support, including our shareholders, customers and business associates.

I would also like to thank the management and staff of China Flexible Packaging for their unwavering dedication to the company. They have truly remained committed to the Company even under such challenging circumstances.

Last but not least, I would like to thank the Board of Directors for their guidance and contribution over the course of a very difficult year.

As we face another challenging 12 months ahead, I humbly ask for all stakeholders to continue giving us your support as we face these challenges together.

**Mr Zeng Hanming**
Chairman and CEO

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[1] Reuters: China economy logs weakest growth since 2009 (19 October 2015) http://www.reuters.com/article/us-china-economy-idUSKCN0SD04B20151019

[2] Reuters: ADB sees slower growth for Asia, China in 2015, 2016 (21 September 2015) http://www.reuters.com/article/us-asia-economy-adb-idUSKCN0RM03720150922



# STRETCHING THE LIMITS

## Unique Production Facilities For Your Film Development



# Investing Our Future















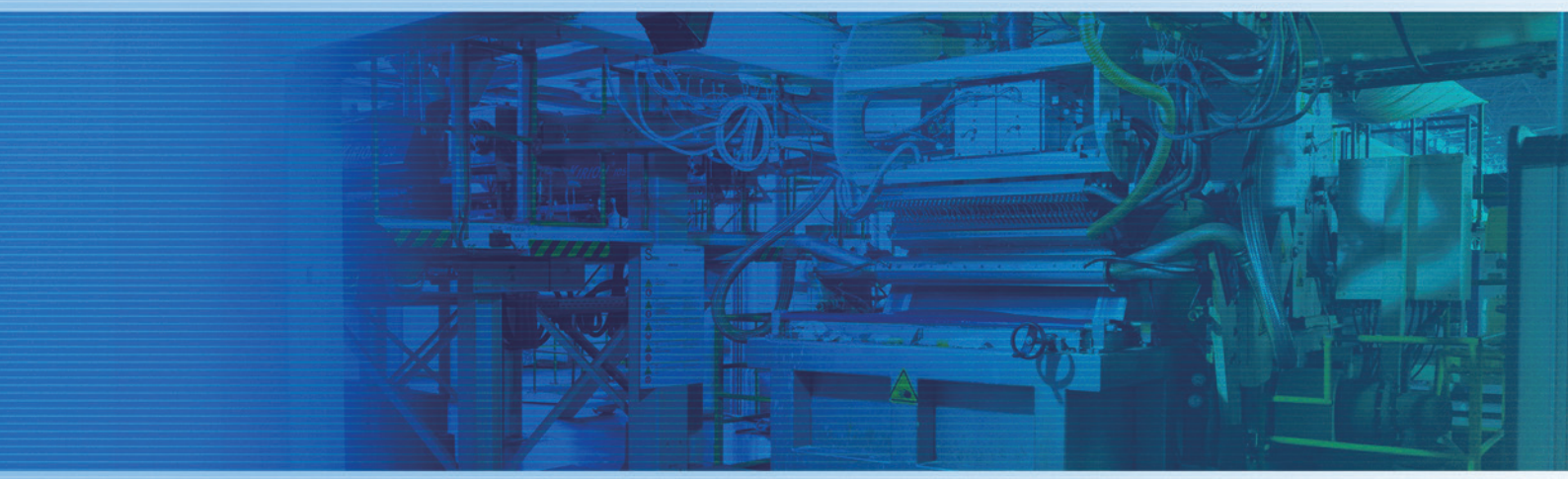


## HIGH PROCESS EFFICIENCY

- Excellent mechanical and optical properties
- Good convertibility and printability
- High yield
- Excellent sealing properties
- Good barrier properties

## FOOD CONTACT APPROVED

- Environmentally friendly
- Wide range of applications
- Low density
- Good recyclability
- Excellent packaging efficiency
- High aesthetic value



# Operations Review

## OPERATIONS AND FINANCIAL REVIEW

### CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

#### THE GROUP'S REVENUE

The Group's revenue decreased by 46.3% or RMB292.1 million from RMB631.0 million for the financial year ended 31 October 2014 ("FY2014") to RMB338.9 million for the financial year ended 31 October 2015 ("FY2015").

The drop was primarily attributed to (i) lower average selling price of the Group's major product (low shrinkage films) due to keener competition, lower market demand and the presence of sub-standard products; and (ii) significant fall in orders in high profit margin products from weakening domestic consumer market.

#### THE GROUP'S GROSS LOSS AND OPERATING LOSS BEFORE TAX

The cost of sales decreased 26.1% from RMB606.8 million in FY2014 to RMB448.4 million in FY2015, due mainly to the drop in sales volume and production and other overheads including water and electricity expenses, fuel costs, depreciation and amortisation charges of non-current assets.

The decrease in revenue was not matched by a decrease in the cost of sales as the direct material cost, direct labour costs and overheads dropped at a much slower pace than the decline in selling price. The Group recorded a gross loss of RMB109.6 million in FY2015 compared with a gross profit of RMB24.2 million in FY2014. This was mainly attributable to (i) adverse change in product mix with the significant decline in the sales of high margin high shrinkage film products. As a result, low-cost products dominated our total sales yielding an unattractive margin; (ii) presence of sub-standard products mainly in the low-cost segment which had put a burden on margins, and (iii) inflationary pressure in the PRC.

The Group targets to earn a positive gross margin from its customers at the point of sale. However, due to production issues affecting the quality of the products sold coupled with increases in raw material costs which could not be passed on to customers, some of these customer sales resulted in a negative gross margin. Furthermore, the Group may also be required to adjust its pricing due to past quality issues to maintain customer relationships in the face of keen competition.

Other revenue of RMB0.2 million in FY2015 (FY2014: RMB0.3 million) mainly comprised of sales of scrap materials and interest income arising from bank deposits.

Selling and distribution costs in FY2015 decreased by 70.0% over the last year to RMB0.8 million (FY2014: RMB2.8 million), mainly due to the significant drop in travelling, other business related expenses and other local business taxes.

Administrative expenses in FY2015 decreased by 17.0% over the last financial year to RMB15.4 million (FY2014: RMB18.5 million), due mainly to the decrease in office utility expenses, other office expenses and depreciation charges.

Other expenses increased significantly from RMB0.1 million in FY2014 to RMB56.7 million in FY2015, due largely to RMB56.6 million of impairment loss on non-current assets. The background of the impairment loss is as follows;

– Impairment loss on non-current assets

The Company experienced production issues and significant decline in profitability in FY2015. The Board commissioned Peak Vision Appraisals Limited ("Peak Vision"), a Registered Professional Surveyor and Registered Business Valuer, to independently assess the carrying value of the Group's assets as at the period ended 30 April 2015 and year ended 31 October 2015.

According to the valuation reports dated 10 June 2015 and 28 December 2015, there was a shortfall of approximately RMB47.2 million and RMB9.4 million respectively to the carrying value of the Group's non-current assets as at the period ended 30 April 2015 and the year ended 31 October 2015. The total shortfall in FY2015 amounted to RMB56.6 million. The shortfall in the Group's non-current assets in FY2015 was a net amount comprising of (i) a shortfall of RMB72.4 million arising from property, plant and equipment and (ii) a surplus of RMB15.8 million arising from land use rights. The shortfall and surplus to the carrying value represented the need of recognising an impairment loss and reversal. The value of the impairment loss and reversal ascribes to fair value less costs of disposal ("FVLCD") valuation basis.

During the review, management and Peak Vision also assessed both the Group asset's FVLCD and value in use ("VIU") according to International Accounting Standards No. 36 ("IAS 36"), and the gross FVLCD exceeded the gross VIU. Accordingly, the Group's non-current assets including property, plant and equipment and land use rights were adjusted to its FVLCD amount.

The shortfall arising from property, plant and equipment in FY2015 was mainly due to machineries in production line no. 3 which have ceased operations from November 2015 and may be abandoned in 2016 being appraised on a dismantling and disposal basis.

The surplus arising from land use rights in FY2015 was mainly due to (i) appreciation in value in the prevailing land lease market in the People's Republic of China, and (ii) the use of the higher of FVLCD and VIU. In the last financial year, the recoverable amount of the land use rights were determined based on a VIU calculation (which was higher than FVLCD) on the Group's cash-generating units. In 2015, the FVLCD was higher than VIU. This resulted in the surplus and the reversal of impairment loss.

### THE GROUP'S NET LOSS FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO OWNERS OF THE COMPANY

As a result of the above, the Group recorded a net loss of RMB182.3 million for the FY2015, compared with the net profit of RMB3.0 million in FY2014.

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

Non-current assets decreased by 29.7% or RMB88.5 million from RMB297.6 million as at 31 October 2014 to RMB209.1 million as at 31 October 2015. In particular, property, plant and equipment decreased by 39.5% or RMB103.1 million to RMB157.7 million as at 31 October 2015. The decrease was attributable to an impairment loss of RMB72.4 million and a depreciation charge of RMB30.7 million. Land use rights increased by 39.6% or RMB14.6 million to RMB51.4 million, due mainly to an impairment reversal of RMB15.8 million. The increase was partly offset by an amortization charge of RMB1.2 million.

The land use rights in one of the operating subsidiaries in the People's Republic of China ("PRC"), namely Jieyang City Yuntong Plastic Packaging Co., Limited ("Yuntong"), which occupies approximately two-third of the total site area of Yuntong, will expire on 7 September 2016. According to the legal opinion issued by the Company's PRC legal advisor, the land use rights and ownership rights of the buildings and structures erected thereon shall be reverted to state ownership upon the expiration. The management does not intend to make application to the local PRC government to renew the land use rights as the manufacturing operation of the production line no. 3 in Yuntong is not economically viable.

# Operations Review

As at 31 October 2015, the carrying amount of the subject land use rights and the buildings and structures erected thereon were RMB0.07 million (as at 31 October 2014: RMB0.20 million) and RMB5.16 million (as at 31 October 2014: RMB1.88 million (increase in FY2015 due to the FVLCD higher than the VIU)) respectively.

Current assets of the Group decreased by 57.1% or RMB90.6 million from RMB158.7 million as at 31 October 2014 to RMB68.1 million as at 31 October 2015. It was mainly due to the 69.6% decrease in accounts receivable from RMB101.2 million as at 31 October 2014 to RMB30.7 million as at 31 October 2015, underpinned by a decline in revenue. The average accounts receivables' turnover days increased to 71 days in FY2015 from 51 days in FY2014.

The Group's inventories reduced by 45.0% from RMB28.5 million as at 31 October 2014 to RMB15.7 million as at 31 October 2015. This was mainly attributable to lower purchases in FY2015 in response to the downward sales trend, and for the provision for write-down of inventories to net realisable value amounting to RMB1.9 million. The average inventory turnover days remained at 22 days in FY2015, similar to FY2014.

Apart from this, deposits, prepayments and other receivables increased by RMB2.7 million to RMB2.9 million as at 31 October 2015. The increase was largely attributable to advance payments to suppliers according to a few suppliers' payment instructions. The corresponding inventories were collected and settled in November 2015 subsequent to FY2015.

Current liabilities of the Group increased by 37.0% or RMB3.2 million over the last financial year to RMB11.8 million as at 31 October 2015. It was attributable to the increase in accounts payable and receipts in advance from customers at the current year end compared with the last year ended 31 October 2014.

## CONSOLIDATED STATEMENT OF CASH FLOWS

In FY2015, the net cash outflow from operating activities of the Group amounted to RMB10.0 million as compared with the net cash inflow of RMB22.2 million in FY2014. The net cash outflow was mainly attributable to the operating loss before working capital changes of RMB92.1 million. The cash outflow was partially offset by the cash generated from the realisation in inventories, decrease in accounts receivable, increase in receipts in advance from customers and increase in accounts payables during the FY2015.

## BUSINESS SEGMENT PERFORMANCE

In FY2015, our Group's business performance was affected by several factors including downward price pressures, a supply glut in the industry and the overall decline in domestic demand especially in the high margin product segment.

The lower margin low shrinkage film was the only contributor to our revenue in FY2015 as this segment was less affected by the slowdown in the domestic packaging industry. Despite the challenging environment, the segment generated revenue of RMB338.9 million in FY2015, down 20.4% from RMB425.7 million in FY2014. Low shrinkage films are commonly used in the commercial packaging, food & beverage, medical, cosmeceutical and printing industries.

High shrinkage films fetch a higher margin value and are commonly used in the tobacco industry. The Group experienced a significant decline in orders for this segment in FY2015 affecting mainly high shrinkage film, synthetic paper and 5-layer BOPP film. This was due to the continuing fluctuation of demand in high shrinkage film products from the weakening domestic consumer market. As a result, the Group did not generate any sales from this segment in FY2015, as compared with a revenue of RMB205.3 million (or 32.5% of total revenue) in FY2014.

The Group will adjust its product mix in response to the current market conditions and will continue to monitor the situation to be positioned for any customer demand upswing. Concurrently, the Group is actively seeking opportunities in new industries for its high-margin product segment.

## INDUSTRIAL OUTLOOK & FUTURE PLANS

China's economic growth, which has seen a deceleration since 2011, is expected to slow further until at least 2018. The outlook for 2016 is expected to be muted with rising wages expected to exert downward pressure on growth.

The weakening in China's economic conditions has been pervasive across most industries. In particular the manufacturing industry has been facing difficulties as reflected in the latest declining official Manufacturing Purchasing Managers Index (PMI) in December 2015. The rapidly changing market demands and intensifying competition had presented tremendous market challenges in 2015 for the BOPP industry. These conditions are expected to continue into 2016. An analysis by PCI Films showed that while the Chinese BOPP film industry has expanded 10-folds since 2000 with 4 million tonnes of capacity, domestic consumption of BOPP film in China has only grown by 2.8 million tonnes over the same period, with exports only expanding by 100,000 tonnes[1]. As such, the industry is affected by low margins and underutilized capacity. The Group is experiencing these trends in the industry alongside intensifying competition from new entrants with more advanced production facilities, which adds pressure on selling prices.

One of the major raw materials for BOPP film production is polypropylene, a by-product of petroleum. Although crude oil prices have declined across the year of 2015, Asian propylene prices remained high and there was much demand for downstream polypropylene in China[2]. Coupled with the oligopolistic control of polypropylene supply by the few local petroleum suppliers, this resulted in relatively high raw material prices for the Group.

To optimize business performance, the Group will be implementing strict cost control measures to minimize its losses and to realign its resources for more efficient allocation. This includes, but not limited to, the shutting down of one of our two remaining production lines which has been affected by wear and tear.

Given the above, the Group expects to report an operating loss for the next reporting period and for the next 12 months. However, the Group remains committed to its cost reduction measures and to build a sustainable business to enhance shareholder value.

[1] http://www.packagingeurope.com/Packaging-Europe-News/63487/Global-Growth-in-74-Million-Tonne-BOPP-Film-Market-above-that-of-GDP.html

[2] http://blogs.platts.com/2015/12/18/cyclical-nature-spreads-pdh-propylene/

# Major Products



## LOW SHRINKAGE FILM
## （低收縮膜）

It refers to film that can shrink by less than 4% of its original length or width during the packaging process. It is typically used as packaging materials in many industries such as food, tobacco and pharmaceutical business.



## HIGH SHRINKAGE FILM
## （高收縮膜）

It refers to film that can shrink by more than 8% of its original length or width when heat or pressure is applied during the packaging process. It provides packaging that wraps the packaging product tightly and smoothly.



## SYNTHETIC PAPER
## （合成紙）

It refers to film that can shrink by less than 4% of its original length or width during the packaging process. It is typically used as packaging materials in many industries such as food, tobacco and pharmaceutical business.



## 5-LAYER BOPP FILM
## （五層膜）

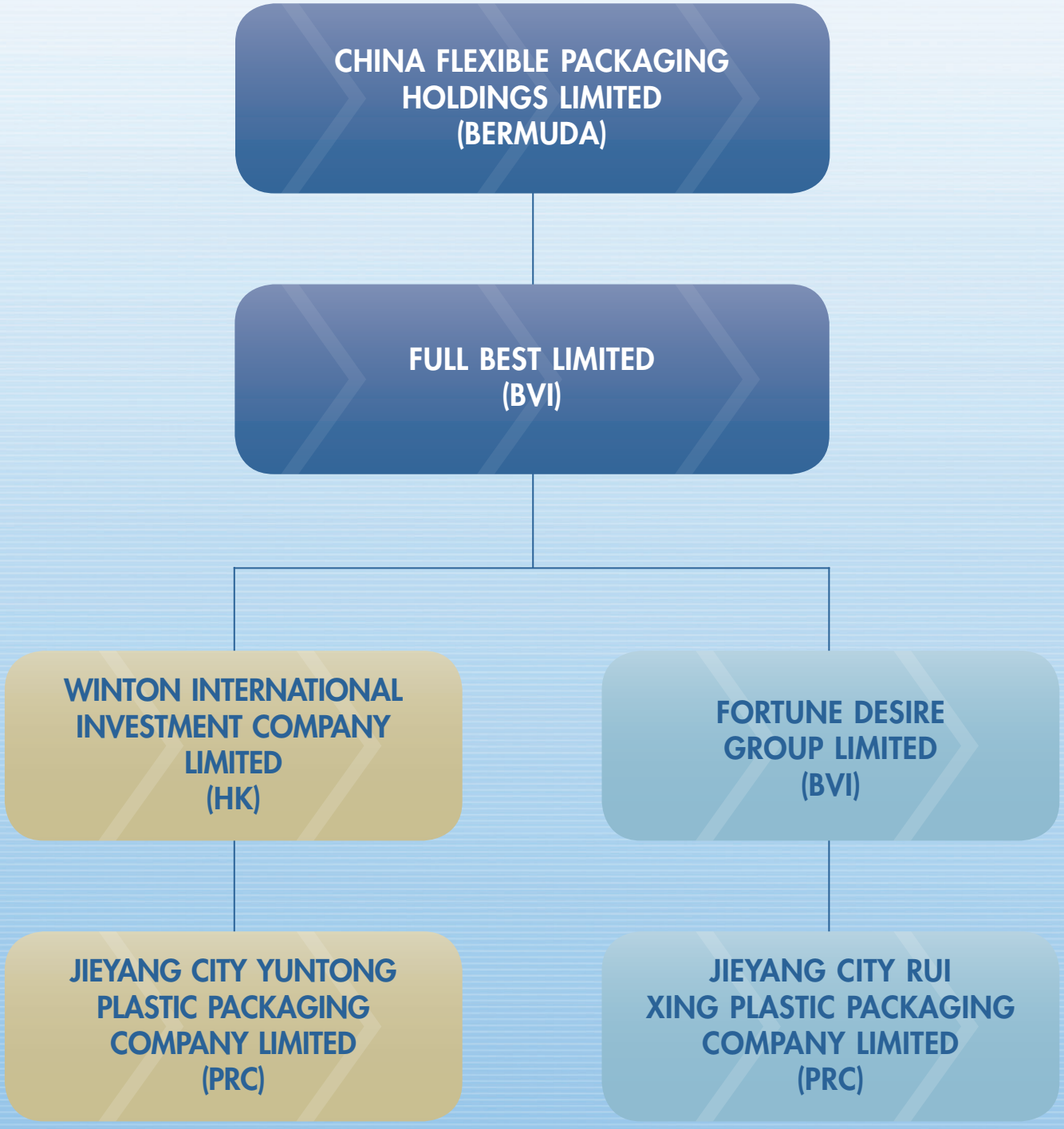
It refers to film that can shrink by more than 8% of its original length or width when heat or pressure is applied during the packaging process. It provides packaging that wraps the packaging product tightly and smoothly.

# Financial Highlights

## YEAR ENDED OCTOBER 31

| Income Statement | 2011 RMB'000 | 2012 RMB'000 | 2013 RMB'000 | 2014 RMB'000 | 2015 RMB'000 |
|---|---|---|---|---|---|
| Group revenue | 864,765 | 650,305 | 467,543 | 631,003 | **338,863** |
| Gross profit/(loss) | 100,704 | (46,293) | (241,135) | 24,189 | **(109,584)** |
| Other operating income | 2,573 | 2,434 | 529 | 298 | **227** |
| Profit/(loss) before taxation | 13,366 | (548,849) | (629,967) | 3,047 | **(182,280)** |
| Profit/(loss) attributable to shareholders | 6,811 | (549,954) | (630,007) | 3,047 | **(182,259)** |
| **Assets and Liabilities** | | | | | |
| Total assets | 1,680,281 | 1,109,726 | 453,311 | 456,306 | **277,221** |
| Total liabilities | 55,612 | 35,043 | 8,635 | 8,583 | **11,757** |
| Shareholders' fund | 1,624,669 | 1,074,683 | 444,676 | 447,723 | **265,464** |
| Gearing ratio | 0 | 0 | 0 | 0 | **0** |

# Corporate Structure



# Board Of Directors



## ZENG HANMING
### Chairman and Executive Director

Zeng Hanming has been appointed as Chairman of our Group in July 2008. He has more than 20 years of experience in the flexible packaging industry in areas of marketing, merchandising, production and operations. Mr Zeng is responsible for the daily operations, business development and strategic planning of our manufacturing operations. He holds a Bachelor of Business Administration degree from the University of Jinan in China. Mr Zeng was re-elected as a director on 26 February 2014.

## LI WEIHUA
### Executive Director

Li Weihua is our Executive Director and was appointed on 15 March 2014. Mr. Li has more than 30 years of experience in trading, logistic and manufacturing field in China, in particular with more than 15 years of experience in the flexible packaging industry. Mr. Li joined Jieyang City Yuntong Plastic Packaging Company Limited (one of the Group's operating subsidiaries in PRC) in January 1999 and prior to his appointment as Executive Director he was the Assistant to the Chairman. He has held senior management positions in various departments in the Company and is currently responsible for the daily operations, production, administrative and human resources affairs.

He holds a Bachelor of Accounting and Finance from Guangdong Financial Management Institute in China. He is also a member of the Chinese Institute of Certified Public Accountant.

## CHNG HEE KOK
### Lead Independent Director

Chng Hee Kok is our Lead Independent Director and was appointed on 28 February 2013. Mr. Chng has more than 30 years of general management experience in a wide range of industries. Mr. Chng is currently the Managing Director of LH Group Limited and presently sits on the boards of a number of listed companies in Singapore. He was a Director of the Singapore Institute of Directors and had served as a Member of the Sentosa Development Corporation. He was also an elected Member of the Singapore Parliament from 1984 to 2001. He has previously served as the CEO of Scotts Holdings Ltd, Yeo Hiap Seng Ltd, Hartawan Holdings Ltd and HG Metal Manufacturing Ltd.

Mr. Chng was awarded a Merit Scholarship in 1967, and the Mobil Silver Medal and the Institution of Engineers Singapore Gold Medal in 1972. He received the Engineering Alumni Award in 1992. He graduated with a B.Eng First Class Honours degree from University of Singapore in 1972 and received his MBA from the National University of Singapore in 1984. Mr. Chng was re-elected as a Director on 26 February 2014.

## PROFESSOR LING CHUNG YEE ROY
### Independent Director

Professor Roy Ling is currently a Managing Director at RL Capital Management and RL Academy. Concurrently, he also serves as an Independent Board Director at 6 listed companies across Asia, as an Adjunct Professor in Finance at the EDHEC Business School, and as a Consultant for RHT Strategic Advisory and RHT Academy.

Prior to RL Capital, Prof. Ling held senior investment banking positions with JPMorgan, Lehman Brothers, Goldman Sachs and Salomon Smith Barney. Prof. Ling is a Chartered Financial Analyst and was a former Board Director of the CFA Society of Japan. He was honored as one of 20 Rising Stars in Real Estate by Institutional Investor in 2008.

Prof. Ling graduated from INSEAD with a Global EMBA and from the National University of Singapore with a Bachelors degree in Business Administration. Professor Ling was reelected as a Director on 26 February 2014.

## PROFESSOR DU JINMIN
### Independent Director

Professor Du Jinmin is a member of the academic committee in the School of Business of Jinan University. He has more than 20 years of experience and graduate level courses in financial institution management, finance, corporate finance and mergers and acquisition. Professor Du is also a director in several companies in PRC. He holds a PhD in Economics from the Nanjing Agriculture University in China. Professor Du was re-elected as a director on 28 February 2013.

# Key Management



## KIT CHAN
### Chief Financial Officer and Company Secretary

Mr Chan is the Chief Financial Officer and the Joint Company Secretary of our Group. He joined our Group in 2011 and is in charge of the overall control of our Group's finance, accounting and taxation aspects of our Group. In addition, he is responsible for implementing internal controls and corporate governance and practices, as well as liaising with external parties and regulatory bodies in respect of the Group's financial matters. Mr Chan has several years experience in accounting and auditing for a number of listed companies in Hong Kong and Singapore. He worked in an international audit firm prior to joining our Group. He is a member of the Hong Kong Institute of Certified Public Accountants (HKICPA), the Hong Kong Institute of Chartered Secretaries (HKICS) and the Institute of Chartered Secretaries and Administrators (ICSA). He holds a master degree in Corporate Governance and a Bachelor degree in Accountancy from the Hong Kong Polytechnic University.

## ZHANG JIANG ZHOU
### Chief Engineer

He is the Chief Engineer of our Group since 2013. He was previously the Deputy Chief Engineer of the Group and is now in charge of the production technologies, material purchase and material formulation. Mr Tan has more than 34 years of experience in the Chemistry engineering field. He holds a Bachelor degree with a major in engineering from the South China University of Technology in China.

# Corporate Information

## BOARD OF DIRECTORS

Zeng Hanming (Chairman)
Li Weihua (Executive Director)
Chng Hee Kok (Lead Independent Director)
Prof. Ling Chung Yee Roy (Independent Director)
Prof. Du Jinmin (Independent Director)

## COMPANY SECRETARIES

Kit Chan, CPA, ACIS, ACS
Kevin Cho
Codan Services Limited (Assistant Company Secretary)

## REGISTERED OFFICE

Clarendon House
2 Church Street
Hamilton Hm 11
Bermuda
Tel. No : (1) (441)-2951-422
Fax. No : (1) (441)-2954-720

## PRINCIPAL PLACE OF BUSINESS IN PRC

689 Xiguan Road
Jieyang City
Guangdong 522000
PRC

## PRINCIPAL PLACE OF BUSINESS IN HONG KONG

2503B 25 Floor
Golden Center
188 Des Voeux Road Central
Hong Kong

## BERMUDA SHARE REGISTRAR

Codan Services Limited
Clarendon House
2 Church Street
Hamilton Hm 11
Bermuda

## SINGAPORE SHARE TRANSFER AGENT

Boardroom Corporate & Advisory
Services Pte. Ltd.
50 Raffles Place
#32-01 Singapore Land Tower
Singapore 049623
Fax. No : (65)-6536 1360

## JOINT AUDITORS

Foo Kon Tan LLP
Public Accountants And
Chartered Accountants
47 Hill Street #05-01
Singapore Chinese Chamber
Of Commerce & Industry Bldg.
Singapore 179365
Partner In-Charge
Chang Fook Kay
(Effective from financial year ended 31 October 2012)

HLB Hodgson Impey Cheng Limited
Chartered Accountants
Certified Public Accountants
31/F Gloucester Tower
The Landmark
11 Pedder Street, Central
Hong Kong
Partner In-Charge
Alex Hon
Appointed on 2 December 2011

## PRINCIPAL BANKER

Industrial And Commercial
Bank of China
Rongcheng Sub-Branch
No. 52 Han Si Road
Jieyang City
Guangdong 522000

## INVESTOR RELATIONS CONTACT

Kit Chan
Kit.chan@cnflexpack.com

# FINANCIAL
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## CORPORATE GOVERNANCE STATEMENT

The Board of Directors of China Flexible Packaging Holdings Limited (the "Board") is committed to setting and maintaining high standards of corporate governance to ensure greater corporate transparency and to protect shareholders' interests and enhance shareholders' value. This report describes the Company's corporate governance processes and activities with specific reference made to the principles and guidelines as set out in the revised Code of Corporate Governance 2012 (the "Code"). Where there are deviations from the Code, appropriate explanations will be provided.

## BOARD MATTERS

### PRINCIPLE 1: BOARD'S CONDUCT OF AFFAIRS

The Board's primary role is to protect and enhance long-term shareholders' value. Board meetings are held at least once every quarter to:

- oversee the business affairs of the Group;
- review and approves the financial objectives;
- review and approves the strategies implemented by management; and
- monitor standards of performance and issues of policy.

This enables the Board to meet on a regular basis while not interfering with the Company's operations. The Board is free to request for further clarification and information from management on all matters within their purview. Ad hoc meetings are convened when the circumstances require. The Bye-Laws of the Company also provide for directors to convene meetings by tele-conferencing.

To assist in the execution of its responsibilities, the Board is supported by three sub-committees, namely Nominating Committee ("NC"), Remuneration Committee ("RC") and Audit Committee ("AC"). Each Committee has its own defined terms of reference and operating procedures to discharge its responsibilities more efficiently.

The Board met 4 times in FY2015 to review the Group's business operations and financial performance. The attendance of the Directors at meetings of the Board and Board Committees during the year are disclosed as follows:

| DIRECTORS | BOARD | | AC | | NC | | RC | |
|---|---|---|---|---|---|---|---|---|
| | Number | Attended | Number | Attended | Number | Attended | Number | Attended |
| Zeng Hanming | 4 | 3 | NA | NA | 1 | 1 | NA | NA |
| Li Weihua | 4 | 4 | NA | NA | NA | NA | NA | NA |
| Prof. Du Jinmin | 4 | 3 | 4 | 3 | 1 | 1 | 1 | 1 |
| Chng Hee Kok | 4 | 4 | 4 | 4 | 1 | 1 | 1 | 1 |
| Prof. Ling Chung Yee Roy | 4 | 4 | 4 | 4 | 1 | 1 | 1 | 1 |

The Board's approval is required for transactions or matters such as major investments, corporate restructuring, mergers and acquisitions, material acquisitions or disposal of assets, the release of the Group's financial results announcements, interested person transactions of a material nature and declaration of dividends.

The Company is responsible for arranging regular training for the Company's Directors from time to time particularly on changes in the relevant new laws, regulations and changing commercial risks to enable them to make well-informed decision and to ensure that the Directors are competent in carrying out their expected roles and responsibilities.

During FY2015, the independent directors have travelled to the Company's key sites of operations to update themselves with the latest development in the Company's operations.

# Corporate Governance Statement

## PRINCIPLE 2: BOARD COMPOSITION AND GUIDANCE

The Board of Directors consists of five members, three of whom are Independent Directors. This composition complies with the Code's requirement that at least half of the Board should be made up of independent directors.

Executive Directors

Zeng Hanming (Chairman and Executive Director)
Li Weihua (Executive Director)

Non-executive Directors

Chng Hee Kok (Lead Independent Director)
Prof. Ling Chung Yee Roy (Independent Director)
Prof. Du Jinmin (Independent Director)

All appointments and retirements of Directors would be recommended by the NC to the Board. In addition, the NC also reviews annually the independence of each Director and board succession planning. The Board is of the view that the current Board comprises persons who as a group, provide core competencies necessary to meet the Company's requirements and that the current board size is adequate, taking into account the nature and scope of the Company's operations.

## PRINCIPLE 3: CHAIRMAN AND CEO

Mr Zeng Hanming has assumed the roles of both Chairman and CEO since 21 July 2008. As such, Mr Zeng bears executive responsibility for the Company's business as well as responsibility for the workings of the Board and ensures that procedures are introduced to comply with the Code.

Although the roles and responsibilities for the Chairman and CEO are vested in Mr Zeng, major decisions are made in consultation with the Board which comprises a majority of independent non-executive directors. The Board believes that there are adequate measures in place against any uneven concentration of power and authority in one individual.

The Company has a Lead Independent Director, Mr Chng Hee Kok who was appointed on 1 March 2013. The Lead Independent Director shall be available to the shareholders where they have concerns which contact through the normal channels of the Executive Chairman and CEO has failed to resolve or for which such contact is inappropriate. The Lead Independent Director may call for meetings of independent directors from time to time without the presence of other directors and provide feedback to the Chairman after such meetings.

## PRINCIPLES 4 AND 5: BOARD MEMBERSHIP AND PERFORMANCE

The Nominating Committee ("NC") comprises the following four members, three of whom are independent directors. The NC Chairman is not associated in any way with the 10% shareholders of the Company.

Prof. Ling Chung Yee Roy (Chairman)
Chng Hee Kok
Prof. Du Jinmin
Zeng Hanming

The principal functions of the NC are to:

1) Provide nominations for the re-appointment of our directors having regard to their contribution and performance;
2) Assess the independence of the directors annually;
3) Assess whether or not a director is able to and has been adequately carrying out his duties as a director;
4) Review the appropriate size of the Board;
5) Evaluate the effectiveness and performance of the Board; and
6) Review on a yearly basis the training programmes for the Board.

The NC has reviewed the independence of each director for FY2015 in accordance with the Code's definition of independence and is satisfied that more than half of the Board comprises independent Directors. The NC was of the view that Messrs Chng Hee Kok, Prof. Ling Chung Yee Roy and Prof. Du Jinmin are independent.

The NC acknowledges the importance of a formal assessment of Board and Board Committees performances. An assessment system and evaluation forms have been established and adopted. The NC has conducted a formal assessment of the Board's and Board Committees' performances including Directors' commitment of time for meetings of the Board and Board Committees for FY2015.

The NC has reviewed the training needs for the Directors in FY2015 and encouraged directors to attend the relevant training courses that could enhance the knowledge of directors to perform its duties as Directors of the Company.

Pursuant to the existing Bye-Laws of the Company, each Director of the Company shall retire from office at least once every three (3) years by rotation. Directors who retire are eligible to offer themselves for re-election. It was also provided in the Bye-Laws of the Company that any additional Director appointed during the year shall only hold office until the next Annual General Meeting and are subject to re-election by the Shareholders.

The NC, in considering the re-election of a director, evaluate such director's contribution and performance, such as his attendance at meetings of the Board and/or Board committees, participation, candour and any special contribution.

The Board has accepted NC's nomination of the retiring directors, Messrs Chng Hee Kok and Zeng Hanming for re-election as Directors at this forthcoming AGM. Therefore, they are to retire and subject to re-election at the forthcoming AGM.

## PRINCIPLE 6: ACCESS TO INFORMATION

To enable the Board to fulfill its responsibility, Management strives to provide Board members with adequate information for Board meetings on a timely and an ongoing basis. Directors are given separate and independent access to the Company's key management personnel and Joint Company Secretaries to address any enquiries. The appointment and removal of Joint Company Secretaries should be a matter for the Board as a whole.

The Joint Company Secretaries or their representatives attend all Board meetings and are responsible for ensuring that proper procedures at such meetings are followed. Together with the Company's management, they are responsible to ensure that the Company complies with the requirements of the Companies Act, Listing Manual of the SGX-ST and other rules and regulations that are applicable to the Company.

A Director or as a group, may seek professional advice in furtherance of their duties and the costs will be borne by the Company.

## REMUNERATION MATTERS

### PRINCIPLE 7: PROCEDURES FOR DEVELOPING REMUNERATION POLICIES

### PRINCIPLE 8: LEVEL AND MIX OF REMUNERATION

### PRINCIPLE 9: DISCLOSURE OF REMUNERATION

The Remuneration Committee ("RC") comprises the following three members, all of whom are Independent Directors:

Prof. Ling Chung Yee Roy (Chairman)
Chng Hee Kok
Prof. Du Jinmin

The principal functions of the RC are to:

1) Review and approve annually the remuneration of the senior management and key management personnel of the Group with a goal to recruit, motivate and retain employees through competitive compensation and progressive policies; and
2) Review and approve annually the remuneration for the directors.

Each member of the RC refrains from voting on any resolutions in respect of the assessment of his remuneration. No Director will be involved in determining his own remuneration. Non-Executive Directors do not have service contracts with the Company and their terms of appointment are specified in the Bye-Laws of the Company. The Executive Directors do not receive directors' fees. The independent directors received directors' fees which are recommended by the Board for approval at the Company's AGM. In setting the remuneration packages of the Executive Directors, the Company takes into account the performance of the group and that of the Executive Directors which are aligned with long term interest and risk policies of the Group.

The RC has full authority to engage any external professional advice on matters relating to remuneration as and when the need arises.

A breakdown of each individual director's remuneration for FY2015 is as follows:

| | Fees | Salary | Bonus | Other Benefits | Total Compensation |
|---|---|---|---|---|---|
| | S$ | S$ | S$ | S$ | S$ |
| **Directors** | | | | | |
| Zeng Hanming | – | 215,000 | – | 1,000 | 216,000 |
| Li Weihua | – | 13,000 | – | 1,000 | 14,000 |
| Chng Hee Kok | 56,000 | – | – | – | 56,000 |
| Prof. Ling Chung Yee Roy | 48,000 | – | – | – | 48,000 |
| Prof. Du Jinmin | 12,000 | – | – | – | 12,000 |

A breakdown of each key management personnel remuneration, in percentage terms showing the level and mix for FY2015, is as follows:

| | Fees | Salary | Bonus | Other Benefits | Total Compensation |
|---|---|---|---|---|---|
| | % | % | % | % | % |
| **Key Management** | | | | | |
| Below S$250,000 | | | | | |
| Chan Chun Kit | – | 97 | – | 3 | 100 |
| Zhang Jiang Zhou | – | 93 | – | 7 | 100 |

In terms of the limited customer base and the smallish size of the manufacturing operation, the Company has only two key management personnel. The aggregate amount of the total remuneration paid to the Key Management staff (who are not directors or CEO) is approximately S$175,000 for FY2015.

There is no employee of the Group who is an immediate family member of a director or substantial shareholder whose remuneration exceeds S$50,000 for FY2015.

## ACCOUNTABILITY AND AUDIT

### PRINCIPLE 10: ACCOUNTABILITY

In presenting the annual financial statements and announcements of financial results to the shareholders, it is the aim of the Board to provide the shareholders with a balanced and understandable assessment of the Company's and Group's performance, position and prospects.

Management currently provides the Board with appropriately detailed management accounts of the Group's performance, position and prospects on a regular basis. The Board will update the Shareholders on the operations and financial position of the Company through quarterly and full year announcements as well as timely announcements of other matters as prescribed by the relevant rules and regulations.

### PRINCIPLE 11: RISK MANAGEMENT AND INTERNAL CONTROLS

#### RISK MANAGEMENT

Management regularly reviews the Group's business and operational activities to identify areas of significant business risks as well as appropriate measures to control and mitigate these risks within the Group's policies and strategies.

The Company has an Enterprise Risk Management Framework in place for the Group. The said Framework has been reviewed by the AC and approved by the Board of Directors. The AC and the Management will continually assess the adequacy and effectiveness of the risk management framework and processes.

#### INTERNAL CONTROLS

The Board is responsible for the overall internal control framework and is fully aware of the need to put in place a system of internal controls within the Group to safeguard shareholders' interests and the Group's assets, and to manage risks. The Board recognises that no cost effective internal control system will preclude all errors and irregularities, as a system is designed to manage rather than eliminate the risk of failure to achieve business objectives, and can provide only reasonable and not absolute assurance against material misstatement or loss. The Company also maintains a risk register which identifies the key business risks and the steps to mitigate the associated risk.

The Company's internal and external auditors conduct an annual review of the effectiveness of the Company's material internal control systems including financial, operational, compliance and information technology controls and risk assessment at least annually to ensure the adequacy thereof. In addition, annual review to ensure that safeguards, checks and balances are put in place to prevent any conflict of interest or any weakening of internal controls. Any material non-compliance or failures in internal controls and recommendations for improvements are reported to the AC. The AC also reviews the effectiveness of the actions taken by the Management on the recommendations made by the internal and external auditors in this respect.

The Board has also received assurance from the Chairman and the Chief Financial Officer that (i) the financial records have been properly maintained and the financial statements give a true and fair view of the Company's operations and finances and (ii) the Company risk management and internal control systems in place are effective.

Based on the internal controls established and maintained by the Group, works performed by external and internal auditors and actions taken by the management on the on-going review and continuing efforts at enhancing controls and processes, the Board, with the concurrence of the AC, is not aware of any issues causing it to believe that the system of internal controls as inadequate and the same was reported to the Board.

The Board, with the concurrence of the AC, is of the opinion that currently there are adequate internal controls systems in the Group in addressing financial, operational and compliance risks. The Board regularly reviews the effectiveness of all internal controls, including operational controls of the Group.

## PRINCIPLE 12: AUDIT COMMITTEE

The Audit Committee ("AC") comprises the following 3 members, of whom all are independent directors:

Chng Hee Kok (Chairman)
Prof. Ling Chung Yee Roy
Prof. Du Jinmin

The Company has adopted and has complied with the principles of corporate governance under the Code in relation to the roles and responsibilities of the AC.

The profiles of the AC members are set out on page 15 of this Annual Report. The Board is of the view that all members of the AC including the AC Chairman have the requisite qualification, recent and relevant financial management knowledge, expertise and experience to discharge their responsibilities properly.

The AC meets quarterly and as and when necessary to carry out the following functions:

1) Review the audit plans of our Company's internal and external auditors;
2) Review the internal and external auditors' reports;
3) Review the co-operation given by our Company's officers to the internal and external auditors;
4) Review the financial statements of our Company and the Group before their submission to the Board;
5) Review the independence of external auditors and the nomination of their re-appointment as external auditors;
6) Reviewing all non-audit services provided by the external auditors so as to ensure that any provision of such services would not affect the independence of the external auditors;
7) Review the Group's material internal controls including financial, operational and compliance controls; and
8) Review interested person transactions, if any.

Apart from the duties listed above, the AC shall commission and review the findings of internal investigations into matters where there is any suspected fraud or irregularity, or failure of internal controls or infringement of any Singapore law, rule or regulation which has or is likely to have a material impact on the Group's operating results and/or financial position. Each member of the AC shall abstain from voting on any resolution in respect of matters in which he is interested.

The AC has full access to and co-operation of the Management and external and internal auditors. It also has full discretion to invite any Director or key management to attend its meetings, and has been given reasonable resources to enable it to discharge its function.

The AC is responsible to conduct an annual review of the volume of audit and non-audit services provided by the Joint External Auditors to ensure such services will not prejudice the independence and objectivity of the Joint External Auditors. For FY2015, the total remuneration for audit services by the Joint External Auditors amounted to approximately RMB1,271,000. There were no non-audit services performed for FY2015. The Company complies with the requirements of Rules 712 and 715 of the Listing Manual of the SGX-ST.

The accounts for the year were audited by HLB Hodgson Impey Cheng Limited and Foo Kon Tan LLP whose term of office will expire upon the forthcoming annual general meeting. The AC has recommended to the Board of Directors that HLB Hodgson Impey Cheng Limited be nominated for appointment and that Foo Kon Tan LLP be nominated for reappointment as Joint External Auditors at the forthcoming Annual General Meeting of the Company.

The AC meets with the Joint External Auditors, without the presence of management, at least once a year.

The Company has put in place a whistle-blowing framework, endorsed by the AC where employees of the Company may, in confidence, raise concerns about possible improprieties in matters of financial reporting or other matters and to ensure that arrangements are in place for the independent investigations of such matters and for appropriate follow up actions. There were no whistle-blowing letters received during the year and until the date of this report.

### PRINCIPLE 13: INTERNAL AUDIT

In accordance with the AC's recommendation, the Company has outsourced the internal audit function to a professional firm. The Internal Auditor reports directly to the AC Chairman on internal audit matters and to management on administrative matters. To ensure the adequacy of the internal audit function, the AC reviews and approves, on an annual basis, the internal audit plans and the resources required to adequately perform this function.

### PRINCIPLE 14: SHAREHOLDER RIGHTS

### PRINCIPLE 15: COMMUNICATION WITH SHAREHOLDERS

### PRINCIPLE 16: GREATER SHAREHOLDER PARTICIPATION

The Company is committed to regular and proactive communication with its shareholders in line with continuous disclosure obligations of the Company according to the Listing Manual of the SGX-ST. Pertinent information will be disclosed to shareholders in a timely, fair and equitable manner.

Communication with Shareholders and the public is maintained through regular dissemination of information such as announcements on quarterly results, press releases on the SGXNet and the Company's corporate website. Public awareness on the Company's latest developments and businesses is also maintained through the Company's website, http://www.cnflexpack.com.

# Corporate Governance Statement

Annual reports, circulars and notices of General Meeting will be delivered to all shareholders of the Company. The notices are also advertised in newspapers and available at SGX-ST's website.

Shareholders can vote for resolutions or appoint up to two proxies to attend and vote at all general meetings on his/her behalf using a proxy form sent with the annual report or circular to Shareholders. The participation of shareholders is encouraged at the Company's General Meeting ("GM") through open question and answer session. While the Chairman of the Audit, Remuneration and Nominating Committees will be available at the forthcoming GM to address any queries or concerns relating to the works of these committees, the External Auditors will also be present to assist the Directors in addressing any relevant queries from the shareholders.

The Company will review its Bye Laws from time to time and make such amendments to the Bye Laws to be in line with the applicable requirements or rules and regulations governing the continuing listing obligations on the stock exchange which the Company's securities are listed.

The shareholders of the Company can submit their feedback and raise question to the Company's investor relations contact so that the Company can maintain a close relationship with the shareholders of the Company.

## DEALINGS IN SECURITIES

The Group has adopted a set of code in relation to dealings in the Company's securities to all its officers pursuant to the Listing Manual of the SGX-ST. The internal code is also in compliance with Rule 1207(19) of the Listing Manual. The Company and its officers are informed via email that they are not allowed to deal in the Company's shares during the period commencing two weeks before the announcement of the Company's financial results for each of the first three quarters of its financial year, or one month before the announcement of the Company's full year financial results and ending on the date of the announcement of the relevant results or when they are in possession of any unpublished price sensitive information on the Group. In addition, the Directors, key officers and employees of the Group are discouraged from dealing in the Company's securities on short-term considerations.

The guidelines on share purchases under the share purchase mandate, renewed annually at the Company's AGM also provides that the Company may not effect any repurchases of Shares on the SGX-ST two weeks before the announcement of the Company's financial statements for each of the first three quarters of its financial year and one month before the release of full year financial statements and ending on the date of announcement of the relevant results.

## INTERESTED PERSON TRANSACTIONS

During FY2015, there were no interested person transactions. When a potential conflict of interest arises, the Director concerned does not participate in discussions and refrains from exercising any influence over other members of the Board.

The AC will review all interested person transactions to be entered to ensure that the relevant rules under Chapter 9 of the Listing Manual of the SGX-ST are complied with.

## MATERIAL CONTRACTS

There were no material contracts of the Group or its subsidiaries involving the interest of any Director or controlling shareholder subsisting during FY2015.

The directors present their statement to the members together with the audited consolidated financial statements of the Group and statement of financial position and statement of changes in equity of the Company for the financial year ended 31 October 2015.

In the opinion of the directors,

(a) the statement of financial position of the Company and the consolidated financial statements of the Group as set out on pages 32 to 35 are drawn up so as to give a true and fair view of the financial positions of the Company and of the Group as at 31 October 2015 and the financial performance, changes in equity and cash flows of the Group for the financial year covered by the consolidated financial statements; and

(b) at the date of this statement, there are reasonable grounds to believe that the Company will be able to pay its debts as and when they fall due.

## DIRECTORS

The directors of the Company in office at the date of this report are:

### EXECUTIVE DIRECTORS:

Mr Zeng Hanming
Mr Li Weihua

### INDEPENDENT NON-EXECUTIVE DIRECTORS

Prof. Du Jinmin
Mr Chng Hee Kok
Prof. Ling Chung Yee Roy

### ARRANGEMENTS TO ENABLE DIRECTORS TO ACQUIRE SHARES OR DEBENTURES

Except as disclosed in this report, neither at the end of the year, nor at any time during the year, was the company a party to any arrangement whose object was to enable directors of the company acquire benefits by means of the acquisition of shares and debentures of the company or any other body corporate.

# Directors' Statement

For the financial year ended 31 October 2015

## DIRECTORS' INTEREST IN SHARES OR DEBENTURES

According to the Register of Directors' Shareholdings, none of the directors who held office at the end of the financial year had any interest in the shares or debentures of the Company or its related corporations, except as follows:

| | Number of ordinary shares | | | | | |
|---|---|---|---|---|---|---|
| | Shares registered in the name of director | | | Shares in which director is deemed to have an interest | | |
| | As at 1.11.2014 | As at 31.10.2015 | As at 21.11.2015 | As at 1.11.2014 | As at 31.10.2015 | As at 21.11.2015 |
| Mr. Zeng Hanming | 14,268,900 | 142,689 | 142,689 | 6,624,569 | 66,245 | 66,245 |
| Mr. Li Weihua | – | – | – | – | – | – |
| Prof. Du Jinmin | – | – | – | – | – | – |
| Mr. Chng Hee Kok | – | – | – | – | – | – |
| Prof. Ling Chung Yee Roy | – | – | – | – | – | – |

## DIRECTORS' CONTRACTUAL BENEFITS

The company has renewed the service agreements (the service agreements), effective 1 January 2016, with Mr Zeng Hanming for a period of 3 years (such terms of the service agreements may be extended only upon the mutual consent of the parties) unless otherwise terminated by either party giving not less than 3 months' written notice.

The company has a service agreement effective 15 March 2014 with Mr Li Weihua for a period of 3 years (such terms of the service agreements may be extended only upon the mutual consent of the parties)) unless otherwise terminated by either party giving not less than 3 months' written notice.

Apart from the foregoing, no director proposed for re-election at the forthcoming annual general meeting has a service contract with the company which is not determinable by the company within 1 year without payment other than statutory compensation.

## SHARE OPTIONS GRANTED

There is presently no option scheme on the unissued shares of the company.

## AUDIT COMMITTEE

The audit committee at the end of the financial year comprises the following members:

Chng Hee Kok (Chairman)
Prof. Ling Chung Yee Roy (Member)
Prof. Du Jinmin (Member)

Details of the company's audit committee, nominating committee and remuneration committee are set on pages 19 to 26 of the Corporate Governance Statement.

## INDEPENDENT AUDITOR

The accounts for the year were audited by HLB Hodgson Impey Cheng Limited and Foo Kon Tan LLP whose term of office will expire upon the forthcoming annual general meeting. HLB Hodgson Impey Cheng Limited and Foo Kon Tan LLP have expressed their willingness to accept reappointment. A resolution for the reappointment of HLB Hodgson Impey Cheng Limited and Foo Kon Tan LLP as the joint external auditors of the company for the subsequent year is to be proposed at the forthcoming annual general meeting.

## OTHER INFORMATION REQUIRED BY THE SGX-ST

### MATERIAL INFORMATION

The details are set out in page 26 of the Corporate Governance Statement.

### INTERESTED PERSON TRANSACTIONS

During the financial year ended 31 October 2015, there were no interested person transactions. When a potential conflict of interest arises, the Director concerned does not participate in discussions and refrains from exercising any influence over other members of the Board.

The AC will review all interested person transactions to be entered to ensure that the relevant rules under Chapter 9 of the Listing Manual of the SGX-ST are complied with.

The Board of Directors is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with International Financial Reporting Standards, and Section 90 of the Companies Act 1981 of Bermuda, and for such internal control as management determines is necessary to enable the preparation of financial statement that are free from material statements, whether due to fraud or error.

In the opinion of the directors, the accompanying consolidated statement of financial position, the statement of financial position of the Company, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows, together with the notes thereon, are drawn up in accordance with and comply with International Financial Reporting Standards so as to present fairly the state of affairs of the Group and of the Company as at 31 October 2015 and of the results of the business, changes in equity and cash flows of the Group for the year ended on that date and as at the date of this statement, there are reasonable grounds to believe that the Company will be able to pay its debts as and when they fall due.

On behalf of the Directors

**Zeng Hanming**
*Chairman*

**Li Weihua**
*Director*

22 January 2016

# Independent Joint Auditors' Report

**TO THE MEMBERS OF**
**CHINA FLEXIBLE PACKAGING HOLDINGS LIMITED**
(Incorporated in the Bermuda with limited liability)

We have audited the accompanying financial statements of China Flexible Packaging Holdings Limited (the "Company") and its subsidiaries (collectively, the "Group") set out on pages 32 to 83, which comprise the statements of financial position of the Group and the Company as at 31 October 2015, and the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows of the Group for the year then ended, and a summary of significant accounting policies and other explanatory information.

## MANAGEMENT'S RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with International Financial Reporting Standards, and Section 90 of the Companies Act 1981 of Bermuda, and for such internal control as management determines is necessary to enable the preparation of financial statement that are free from material statements, whether due to fraud or error.

## AUDITORS' RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with the International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

## OPINION

In our opinion, the consolidated financial statements of the Group and the statement of financial position of the Company present fairly, in all material respects, the state of affairs of the Group and the Company as at 31 October 2015 and the financial performance and cash flows of the Group for the year then ended in accordance with International Financial Reporting Standards.

## EMPHASIS OF MATTER

### (1) GOING CONCERN

Without qualifying our opinion, we draw attention to Note 2 to the consolidated financial statements which indicates that the Group incurred net losses of approximately RMB182,259,000 and negative cash flow from operating activities of approximately RMB10,008,000 for the financial year ended 31 October 2015. These conditions, along with other matters as set forth in Note 2, indicate the existence of a material uncertainty that may cast significant doubt about the Company's ability to continue as a going concern.

### (2) SIGNIFICANT JUDGMENT ON IMPAIRMENT ASSESSMENT ESTIMATES AND ASSUMPTIONS

Management has assessed and has impaired an amount of RMB56,615,000 and RMB31,671,000 in respect of the Group's non-current assets and carrying amount of the Company's investment in its subsidiaries respectively as at 31 October 2015 based on recoverable amounts and their assumptions as disclosed in Note 7. The fair value of the land use right was determined based on the market comparable approach that reflects recent transaction prices for similar properties. The fair value of building was determined using depreciated replacement cost approach. The approach is based on an estimate of the cost of reproduce with allowance for accrued depreciation as evidenced by observed condition or obsolesce present in the properties. The fair value of machinery and equipment was determined based on established used market comparable. In the absence of market comparable, the fair value was determined based on cost to reproduce or replacement in new condition with current market prices for similar assets, with allowance for accrued depreciation arising from the conditions, utility, age, wear and tear, or obsolescence present (physical, functional or economic), taking into consideration past and present maintenance policy and rebuilding history. The recoverability of these amounts is dependent on the assumptions; and actual results are likely to be different from the estimates since anticipated events frequently do not occur as expected and the variation could be material. Our opinion is not qualified in this respect.

## OTHER MATTERS

This report, including the opinion, has been prepared for and only for you, as a body, in accordance with Section 90 of the Companies Act 1981 of Bermuda and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

HLB Hodgson Impey Cheng Limited
Certified Public Accountants

**Shek Lui**
Practising Certificate Number: P05895

Hong Kong
22 January 2016

Foo Kon Tan LLP
Public Accountants and
Chartered Accountants

Singapore
22 January 2016

# Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the year ended 31 October 2015

| | Notes | 2015 RMB'000 | 2014 RMB'000 |
|---|---|---|---|
| **Revenue** | 10 | **338,863** | 631,003 |
| Cost of sales | | **(448,447)** | (606,814) |
| **Gross (loss)/profit** | | **(109,584)** | 24,189 |
| Other operating income | 11 | **227** | 298 |
| Selling and distribution expenses | | **(849)** | (2,832) |
| Administrative expenses | | **(15,350)** | (18,487) |
| Other expenses | 11 | **(56,724)** | (121) |
| **(Loss)/profit before taxation** | 11 | **(182,280)** | 3,047 |
| Income tax expense | 12 | **–** | – |
| **Net (loss)/profit for the year attributable to owners of the Company** | | **(182,280)** | 3,047 |
| **Other comprehensive loss for the year, net of tax:** | | | |
| **Items that may be reclassified subsequently to profit or loss:** | | | |
| Foreign currency translation differences (at nil tax) | | **21** | – |
| **Total comprehensive (loss)/income for the year attributable to owners of the Company** | | **(182,259)** | 3,047 |
| | | | (Restated) |
| **Basic and diluted (loss)/earnings per share** | 13 | **RMB(37.49)** | RMB0.63 |

The accompanying notes form an integral part of these consolidated financial statements.

# Statements of Financial Position

As at 31 October 2015

| | Notes | Group 2015 RMB'000 | Group 2014 RMB'000 | Company 2015 RMB'000 | Company 2014 RMB'000 |
|---|---|---|---|---|---|
| **Non-current assets** | | | | | |
| Investments in subsidiaries | 14 | **–** | – | **264,298** | 298,655 |
| Property, plant and equipment | 15 | **157,706** | 260,807 | **–** | – |
| Land use rights | 16 | **51,434** | 36,836 | **–** | – |
| | | **209,140** | 297,643 | **264,298** | 298,655 |
| **Current assets** | | | | | |
| Inventories | 17 | **15,699** | 28,525 | **–** | – |
| Accounts receivable | 18 | **30,744** | 101,232 | **–** | – |
| Other receivables | 19 | **2,909** | 190 | **–** | – |
| Cash and cash equivalents | 20 | **18,729** | 28,716 | **297** | 35 |
| | | **68,081** | 158,663 | **297** | 35 |
| **Current liabilities** | | | | | |
| Accounts payable | 23 | **1,750** | – | **–** | – |
| Accruals and other payables | 24 | **10,007** | 8,583 | **163** | 217 |
| | | **11,757** | 8,583 | **163** | 217 |
| **Net current assets/(liabilities)** | | **56,324** | 150,080 | **134** | (182) |
| **Net assets** | | **265,464** | 447,723 | **264,432** | 298,473 |
| **Equity** | | | | | |
| Share capital | 21 | **598,197** | 598,238 | **598,197** | 598,238 |
| Reserves | 22 | **(332,733)** | (150,515) | **(333,765)** | (299,765) |
| **Equity attributable to owners of the Company** | | **265,464** | 447,723 | **264,432** | 298,473 |

The accompanying notes form an integral part of these consolidated financial statements.

# Consolidated Statement of Changes in Equity

For the year ended 31 October 2015

| | Share capital (Note 21) RMB'000 | Share premium (Note 22) RMB'000 | Share redemption reserve (Note 22) RMB'000 | Foreign currency translation reserve (Note 22) RMB'000 | Statutory reserve (Note 22) RMB'000 | Other reserve (Note 22) RMB'000 | Accumulated losses (Note 22) RMB'000 | Total equity RMB'000 |
|---|---|---|---|---|---|---|---|---|
| As at 1 November 2013 | 598,238 | 304,382 | – | 3,461 | 86,527 | 36,630 | (584,562) | 444,676 |
| Profit and total comprehensive income for the year | – | – | – | – | – | – | 3,047 | 3,047 |
| As at 31 October 2014 and 1 November 2014 | **598,238** | **304,382** | **–** | **3,461** | **86,527** | **36,630** | **(581,515)** | **447,723** |
| Loss for the year | **–** | **–** | **–** | **–** | **–** | **–** | **(182,280)** | **(182,280)** |
| Other comprehensive loss for the year: | | | | | | | | |
| Exchange differences on translation of financial statements of foreign operation | **–** | **–** | **–** | **21** | **–** | **–** | **–** | **21** |
| Total Comprehensive loss for the year | **–** | **–** | **–** | **21** | **–** | **–** | **(182,280)** | **(182,259)** |
| Transfer of cancelled fractional shares on share consolidation | **(41)** | **(21)** | **62** | **–** | **–** | **–** | **–** | **–** |
| As at 31 October 2015 | **598,197** | **304,361** | **62** | **3,482** | **86,527** | **36,630** | **(763,795)** | **265,464** |

The accompanying notes form an integral part of these consolidated financial statements.

# Consolidated Statement of Cash Flows

For the year ended 31 October 2015

| | Notes | 2015 RMB'000 | 2014 RMB'000 |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| (Loss)/profit before taxation | | **(182,280)** | 3,047 |
| *Adjustments for:* | | | |
| Depreciation of property, plant and equipment | *15* | **30,699** | 41,985 |
| Amortisation of land use rights | *16* | **1,189** | 1,029 |
| Provision for write-down of inventories to net realisable value | *17* | **1,861** | – |
| Impairment loss on non-current assets | *11* | **56,615** | – |
| Gain on disposal of property, plant and equipment | *11* | **–** | (35) |
| Interest income | *11* | **(145)** | (134) |
| Operating cash flows before working capital changes | | **(92,061)** | 45,892 |
| *Changes in:* | | | |
| Inventories | | **10,965** | 3,015 |
| Accounts receivable | | **70,488** | (26,767) |
| Other receivables | | **(2,719)** | 16 |
| Accounts payable | | **1,750** | – |
| Accruals and other payables | | **1,424** | (52) |
| Cash (used in)/generated from operating activities | | **(10,153)** | 22,104 |
| Interest received | | **145** | 134 |
| **Net cash (used in)/generated from operating activities** | | **(10,008)** | 22,238 |
| **Cash flows from investing activities** | | | |
| Proceeds on disposal of property, plant and equipment | | **–** | 35 |
| **Net cash generated from investing activities** | | **–** | 35 |
| **Net (decrease)/increase in cash and cash equivalents** | | **(10,008)** | 22,273 |
| Cash and cash equivalents as at beginning of year | | **28,716** | 6,443 |
| Effect of foreign exchange rate changes | | **21** | – |
| **Cash and cash equivalents as at end of year** | *20* | **18,729** | 28,716 |

The accompanying notes form an integral part of these consolidated financial statements.

## 1. CORPORATE INFORMATION

The Company is incorporated as a limited liability company and is domiciled in Bermuda. The registered office of the Company is located at Clarendon House, 2 Church Street, Hamilton HM 11, Bermuda.

The principal activity of the Company is investment holding. The Company's subsidiaries are principally engaged in the manufacture and sale of plastic packaging films, synthetic papers and high barrier films in the People's Republic of China (the "PRC"), excluding Hong Kong and Macau. The Group sources its raw materials from suppliers in the PRC and distributes its products in the PRC. There were no significant changes in the nature of the Group's principal activities during the year.

The Company is listed on the Singapore Exchange Securities Trading Limited.

The consolidated financial statements of the Company were authorised and approved for issue in accordance with a resolution of the directors of the Company dated 22 January 2016.

## 2. GOING CONCERN

The Group incurred net losses of approximately RMB182,259,000 and negative cash flow from operating activities of approximately RMB10,008,000 for the financial year ended 31 October 2015.

These events and conditions indicate the existence of a material uncertainty which may cast significant doubt on the Group's ability to continue as a going concern and hence, its ability to realise its assets and discharge its liabilities in the normal course of business. Nevertheless, the Company prepared the financial statements based on the assumption that the Group can be operated as a going concern and is of the view that the Group will have sufficient working capital to finance its operations in the next twelve months from the end of the reporting period, after taking into consideration of the following:

(i) the Group has net current asset of approximately RMB56.3 million as of 31 October 2015 which is able to support working capital requirement;

(ii) the Group is exploring the availability of external debt and equity financing;

(iii) the Group continues to implement measures to improve its liquidity condition, including but not limited to, shortening receivable collection period, lowering inventory level and tightening cost controls over various selling and administrative expenses; and

(iv) the Group plans to close down production from the less effective production line as an immediate measure to conserve cash balance.

## 2. GOING CONCERN (CONTINUED)

Barring any unforeseen circumstance, the management of the Company believes that given the above financing/ business plans and operational measures, the Group will have sufficient cash resources to satisfy its future working capital and other financing requirements in next twelve months.

In addition, the management are of the opinion that the Group and the Company are able to meet their obligations for the next financial year as and when they fall due having regard to the sufficiency of cash flows estimated by the management. Based on the cash flow forecast prepared by management for the next twelve months from the end of the reporting period, the management have estimated that adequate liquidity exists to finance the working capital requirements of the Group for the next financial year. In reviewing the cash flow forecasts, the management have considered the cash requirements of the Group as well as other key factors, including the ability of the Group to generate sufficient revenue to satisfy the Group's future working capital needs, which may impact the operations of the Group during the next financial year. The management is of the opinion that assumptions which are included in the cash flow forecasts are reasonable.

The directors believe that the Group and the Company will have sufficient cash resources to satisfy their working capital requirements for at least the next financial year. Accordingly, the management considers it appropriate that these financial statements should be prepared on a going concern basis and do not include any adjustments that would be required should the Group and the Company fail to continue as a going concern.

## 3. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS

On 1 November 2014, the Group had applied the following new and revised standards, amendments and interpretations of International Financial Reporting Standards ("new and revised IFRSs") that are mandatory for application from that date as follows:

| | |
|---|---|
| IFRS 10, IFRS 12 and IAS 27 (Amendments) | Investment Entities |
| IFRSs (Amendments) | Annual Improvements to IFRSs 2010-2012 Cycle |
| IFRSs (Amendments) | Annual Improvements to IFRSs 2011-2013 Cycle |
| IAS 19 (Amendments) | Defined Benefits Plans: Employee Contributions |
| IAS 32 (Amendments) | Offsetting Financial Assets and Financial Liabilities |
| IAS 36 (Amendments) | Recoverable Amount and Disclosures for Non–Financial Assets |
| IAS 39 (Amendments) | Novation of Derivatives and Continuation of Hedge Accounting |
| IFRIC 21 | Levies |

Application of these new and revised IFRSs did not have a material impact on the financial statements of the Group and the Company for the current financial year except for the following:

## 3. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS (CONTINUED)

### AMENDMENTS TO IFRS 10, IFRS 12 AND IAS 27 INVESTMENT ENTITIES

The Group has applied the amendments to IFRS 10, IFRS 12 and IAS 27 Investment Entities for the first time in the current year. The amendments to IFRS 10 define an investment entity and require a reporting entity that meets the definition of an investment entity not to consolidate its subsidiaries but instead to measure its subsidiaries at fair value through profit or loss in its consolidated and separate financial statements.

To qualify as an investment entity, a reporting entity is required to:

- obtain funds from one or more investors for the purpose of providing them with investment management services;
- commit to its investor(s) that its business purpose is to invest funds solely for returns from capital appreciation, investment income, or both; and
- measure and evaluate performance of substantially all of its investments on a fair value basis.

Consequential amendments have been made to IFRS 12 and IAS 27 to introduce new disclosure requirements for investment entities.

As the Company is not an investment entity (assessed based on the criteria set out in IFRS 10 as at 1 January 2014), the application of the amendments has had no impact on the disclosures or the amounts recognised in the Group's consolidated financial statements.

### ANNUAL IMPROVEMENTS TO IFRSs 2010-2012 CYCLE AND 2011-2013 CYCLE

These two cycles of annual improvements contain amendments to nine standards with consequential amendments to other standards. Among them, IAS 24, Related party disclosures has been amended to expand the definition of a "related party" to include a management entity that provides key management personnel services to the reporting entity, and to require the disclosure of the amounts incurred for obtaining the key management personnel services provided by the management entity.

### AMENDMENTS TO IAS 19, EMPLOYEE BENEFITS: DEFINED BENEFIT PLANS: EMPLOYEE CONTRIBUTIONS

The amendments introduce a relief to reduce the complexity of accounting for certain contributions from employees or third parties under defined benefit plans. When the contributions are eligible for the practical expedient provided by the amendments, a company is allowed to recognise the contributions as a reduction of the service cost in the period in which the related service is rendered, instead of including them in calculating the defined benefit obligation.

## 3. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS (CONTINUED)

### AMENDMENTS TO IAS 32 OFFSETTING FINANCIAL ASSETS AND FINANCIAL LIABILITIES

The Group has applied the amendments to IAS 32 Offsetting Financial Assets and Financial Liabilities for the first time in the current year. The amendments to IAS 32 clarify the requirements relating to the offset of financial assets and financial liabilities. Specifically, the amendments clarify the meaning of "currently has a legally enforceable right of set-off" and "simultaneous realisation and settlement".

The amendments have been applied retrospectively. The Group has assessed whether certain of its financial assets and financial liabilities qualify for offset based on the criteria set out in the amendments and concluded that the application of the amendments has had no impact on the amounts recognised in the Group's consolidated financial statements.

### AMENDMENTS TO IAS 36 RECOVERABLE AMOUNT DISCLOSURES FOR NON-FINANCIAL ASSETS

The Group has applied the amendments to IAS 36 Recoverable Amount Disclosures for Non-Financial Assets for the first time in the current year. The amendments to IAS 36 remove the requirement to disclose the recoverable amount of a cash-generating unit (CGU) to which goodwill or other intangible assets with indefinite useful lives had been allocated when there has been no impairment or reversal of impairment of the related CGU. Furthermore, the amendments introduce additional disclosure requirements applicable to when the recoverable amount of an asset or a CGU is measured at fair value less costs of disposal. These new disclosures include the fair value hierarchy, key assumptions and valuation techniques used which are in line with the disclosure required by IFRS 13 Fair Value Measurements.

The disclosure of these amendments in regard to the additional disclosure requirements when recoverable amount of an asset or CGU is measured at fair value less costs of disposal are disclosed in Note 7.

### AMENDMENTS TO IAS 39 NOVATION OF DERIVATIVES AND CONTINUATION OF HEDGE ACCOUNTING

The Group has applied the amendments to IAS 39 Novation of Derivatives and Continuation of Hedge Accounting for the first time in the current year. The amendments to IAS 39 provide relief from the requirement to discontinue hedge accounting when a derivative designated as a hedging instrument is novated under certain circumstances. The amendments also clarify that any change to the fair value of the derivative designated as a hedging instrument arising from the novation should be included in the assessment and measurement of hedge effectiveness.

The amendments have been applied retrospectively. As the Group does not have any derivatives that are subject to novation, the application of these amendments has had no impact on the disclosures or on the amounts recognised in the Group's consolidated financial statements.

### IFRIC – INT 21 LEVIES

The Group has applied IFRIC – Int 21 Levies for the first time in the current year. IFRIC – Int 21 addresses the issue as to when to recognise a liability to pay a levy imposed by a government. The Interpretation defines a levy, and specifies that the obligating event that gives rise to the liability is the activity that triggers the payment of the levy, as identified by legislation. The Interpretation provides guidance on how different levy arrangements should be accounted for, in particular, it clarifies that neither economic compulsion nor the going concern basis of financial statements preparation implies that an entity has a present obligation to pay a levy that will be triggered by operating in a future period.

IFRIC – Int 21 has been applied retrospectively. The application of this Interpretation has had no material impact on the disclosures or on the amounts recognised in the Group's consolidated financial statements.

## 4. INTERNATIONAL FINANCIAL REPORTING STANDARDS NOT YET EFFECTIVE

The Group has not applied the following new and revised IFRSs that have been issued but are not yet effective:

| | |
|---|---|
| IFRS 9 | Financial Instruments[3] |
| IFRS 10 and IAS 28 (Amendments) | Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[1] |
| IFRS 10, IFRS 12 and IAS 28 (Amendments) | Investment Entities: Applying the Consolidation Exception[1] |
| IFRS 11 (Amendments) | Accounting for Acquisitions of Interests in Joint Operations[1] |
| IFRS 14 | Regulatory Deferral Accounts[1] |
| IFRS 15 | Revenue from Contracts with Customers[2] |
| IFRSs (Amendments) | Annual Improvements to IFRSs 2012-2014 Cycle[1] |
| IAS 1 (Amendments) | Disclosure Initiatives[1] |
| IAS 16 and IAS 38 (Amendments) | Clarification of Acceptable Methods of Depreciation and Amortisation[1] |
| IAS 16 and IAS 41 (Amendments) | Agriculture: Bearer Plants[1] |
| IAS 27 (Amendments) | Equity Method in Separate Financial Statements[2] |

1 *effective for annual periods beginning on or after 1 January 2016*
2 *effective for annual periods beginning on or after 1 January 2017*
3 *effective for annual periods beginning on or after 1 January 2018*

The Group has not early applied these new and revised IFRSs that have been in issue but are not yet effective. The directors do not anticipate that the application of these new and revised IFRSs will have a material impact on the financial statements of the Group and the Company except for the following which may be relevant to the Group and may have a significant effect on the consolidated financial statements in future financial periods.

### IFRS 9 FINANCIAL INSTRUMENTS

IFRS 9 replaces IAS 39 Financial Instruments: Recognition and Measurement and it is a package of improvements introduced by IFRS 9 includes a logical model for classification and measurement, a single, forward-looking "expected loss" impairment model and a substantially reformed approach to hedge accounting. IFRS 9 is effective for annual periods beginning on or after 1 January 2018. The Group is currently assessing the impact to the consolidated financial statements.

### IFRS 15 REVENUE FROM CONTRACTS WITH CUSTOMERS

IFRS 15 requires the entity to recognise revenue which depicts transfer of promised goods or services to customers in an amount that reflects the consideration (payment) to which the entity expects to be entitled in exchange for those goods or services. IFRS 15 is effective for annual periods beginning on or after 1 January 2017. The directors are currently assessing the impact to the consolidated financial statements in future financial periods.

## 5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### (A) BASIS OF PREPARATION

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards.

The consolidated financial statements have been prepared on the historical cost basis, except as otherwise stated in the consolidated financial statements. Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

The consolidated financial statements are presented in Renminbi ("RMB") which is the functional currency of the Company and most of its subsidiaries. All financial information presented in RMB has been rounded to the nearest thousand ("RMB'000"), unless otherwise stated.

### (B) BASIS OF CONSOLIDATION

The consolidated financial statements incorporate the financial statements of the Company and entities (including structured entities) controlled by the Company and its subsidiaries. Control is achieved when the Company:

- has power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its power to affect its returns.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

When the Group has less than a majority of the voting rights of an investee, it has power over the investee when the voting rights are sufficient to give it the practical ability to direct the relevant activities of the investee unilaterally. The Group considers all relevant facts and circumstances in assessing whether or not the Group's voting rights in an investee are sufficient to give it power, including:

- the size of the Group's holding of voting rights relative to the size and dispersion of holdings of the other vote holders;
- potential voting rights held by the Group, other vote holders or other parties;
- rights arising from other contractual arrangements; and
- any additional facts and circumstances that indicate that the Group has, or does not have, the current ability to direct the relevant activities at the time that decisions need to be made, including voting patterns at previous shareholders' meetings.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by other members of the Group.

The results of subsidiaries acquired or disposed of during the year, if any, are included in the consolidated statement of profit or loss and other comprehensive income from the effective date of acquisition or up to the effective date of disposal, as appropriate.

All inter-company balances and significant inter-company transactions and resulting unrealised profits or losses are eliminated on consolidation and the consolidated financial statements reflect external transactions and balances only.

## 5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### (C) BUSINESS COMBINATION

Business combinations are accounted for using the acquisition method as at the acquisition date, which is the date on which control is transferred to the Group. Control is the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, the Group takes into consideration potential voting rights that are currently exercisable.

The consideration transferred does not include amounts related to the settlement of pre-existing relationships. Such amounts are generally recognised in profit or loss.

Costs related to the acquisition, other than those associated with the issue of debt or equity securities, that the Group incurs in connection with a business combination are expensed as incurred.

Any contingent consideration payable is recognised at fair value at the acquisition date. If the contingent consideration is classified as equity, it is not remeasured and settlement is accounted for within equity. Otherwise, subsequent changes to the fair value of the contingent consideration are recognised in profit or loss.

When share-based payment awards (replacement awards) are required to be exchanged for awards held by the acquiree's employees (acquiree's awards) and relate to past services, then all or a portion of the amount of the acquirer's replacement awards is included in measuring the consideration transferred in the business combination. This determination is based on the market-based value of the replacement awards compared with the market-based value of the acquiree's awards and the extent to which the replacement awards relate to past and/or future service.

Goodwill is stated after separate recognition of identifiable intangible assets. It is calculated as the excess of the sum of a) fair value of consideration transferred; b) the recognised amount of any non-controlling interest in the acquiree; and c) acquisition-date fair value of any existing equity interest in the acquiree, over the acquisition date fair values of identifiable net assets. If the fair values of identifiable net assets exceed the sum calculated above, the excess amount (i.e. gain on a bargain purchase) is recognised in profit or loss immediately.

## 5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### (D) ACQUISITIONS FROM ENTITIES UNDER COMMON CONTROL

Business combinations arising from transfers of interests in entities that are under the control of the shareholder that controls the Group are accounted for as if the acquisition had occurred as at the beginning of the earliest comparative year presented or, if later, as at the date that common control was established; for this purpose comparatives are restated. The assets and liabilities acquired are recognised at the carrying amounts recognised previously in the Group controlling shareholder's consolidated financial statements. The components of equity of the acquired entities are added to the same components within Group's equity and any gain or loss arising is recognised directly in equity.

### (E) SUBSIDIARIES

Subsidiaries are entities controlled by the Group. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

Upon the loss of control, the Group derecognises the assets and liabilities of the subsidiary, any non-controlling interests and the other components of equity related to the subsidiary. Any surplus or deficit arising on the loss of control is recognised in profit or loss. If the Group retains any interest in the previous subsidiary, then such interest is measured at fair value as at the date that control is lost. Subsequently it is accounted for as an equity accounted investee or as an available-for-sale financial asset depending on the level of influence retained.

Investments in subsidiaries are stated in the Company's statement of financial position at cost less accumulated impairment losses. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

## 5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### (F) PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment are stated at cost less accumulated depreciation and impairment losses, if any. The cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Dismantlement, removal or restoration costs are included as part of the cost of property, plant and equipment if the obligation for dismantlement, removal or restoration is incurred as a consequence of acquiring or using the asset.

Subsequent expenditure relating to property, plant and equipment that has already been recognised is added to the carrying amount of the asset when it is probable that future economic benefits, in excess of the originally assessed standard of performance of the existing asset, will flow to the Group and the cost can be measured reliably. The carrying amount of the replaced component is derecognised. The costs of the day-to-day servicing of property, plant and equipment are recognised in profit or loss as incurred.

When parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Depreciation is calculated using the straight-line method to allocate the depreciable amount of property, plant and equipment to their estimated useful lives as follows:

| | |
|---|---|
| Leasehold buildings | 15 – 20 years or over the lease terms, whichever is shorter |
| Plant and machinery | 10 years |
| Motor vehicles | 10 years |
| Furniture, fixtures and office equipment | 5 years |
| Leasehold improvements | 5 years |

Depreciation methods, useful lives and residual values are reviewed and adjusted as appropriate as at the end of each reporting period.

The gain on disposal or retirement of property, plant and equipment recognised in the consolidated statement of profit or loss and other comprehensive income is the difference between the net sales proceeds and the carrying amount of the relevant asset.

### (G) LAND USE RIGHTS

Land use rights classified as intangible assets are stated at cost less accumulated amortisation and any impairment losses. Amortisation is calculated on the straight-line basis to write off the cost of the land use rights over its land use rights period of 50 years for which the rights are attached to therein.

## 5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### (H) FINANCIAL INSTRUMENTS

#### FINANCIAL ASSETS

Financial assets can be divided into the following categories: financial assets at fair value through profit or loss, held-to-maturity investments, loans and receivables and available-for-sale financial assets. Financial assets are assigned to the different categories by management on initial recognition, depending on the purpose for which the investments were acquired. The designation of financial assets is re-evaluated and classification may be changed as at the end of the reporting period with the exception that the designation of financial assets at fair value through profit or loss is not revocable.

All financial assets are recognised on their trade date – the date on which the Group commits to purchase or sell the asset. Financial assets are initially recognised at fair value, plus directly attributable transaction costs except for financial assets at fair value through profit or loss, which are recognised at fair value.

Derecognition of financial assets occurs when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred.

An assessment for impairment is undertaken at least as at the end of the reporting period whether or not there is objective evidence that a financial asset or a group of financial assets is impaired. Appropriate allowances for estimated irrecoverable amounts are recognised in profit or loss when there is objective evidence that the assets are impaired. The allowances recognised is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the effective interest rate computed at initial recognition.

Non-compounding interest and other cash flows resulting from holding financial assets are recognised in profit or loss when received, regardless of how the related carrying amount of financial assets is measured.

The Group did not hold any financial assets at fair value through profit or loss, held-to-maturity investments or available-for-sale financial assets during the financial year.

## 5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### (H) FINANCIAL INSTRUMENTS (CONTINUED)

#### FINANCIAL ASSETS (CONTINUED)

*Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Group provides goods or services directly to a debtor with no intention of trading the receivables. They are included in current assets, except for maturities greater than 12 months after the end of the reporting period which are classified as non-current assets.

Loans and receivables are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, loans and receivables are measured at amortised cost using the effective interest method, less provision for impairment. Any change in their value is recognised in profit or loss.

Any reversal shall not result in a carrying amount that exceeds what the amortised cost would have been had any impairment loss not been recognised as at the date the impairment is reversed. Any reversal is recognised in profit or loss.

Receivables are provided against when objective evidence is received that the Group will not be able to collect all amounts due to it in accordance with the original terms of the receivables. The amount of the write-down is determined as the difference between the assets's carrying amount and the present value of estimated future cash flows.

The Group's loans and receivables comprise accounts receivable, deposits and cash and cash equivalents.

*Cash and cash equivalents*

Cash and cash equivalents comprise cash and bank balances. For the purpose of the consolidated statement of cash flows, pledged bank balances are excluded from cash and cash equivalents.

## 5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### (H) FINANCIAL INSTRUMENTS (CONTINUED)

#### FINANCIAL LIABILITIES

The Group's financial liabilities include accounts payable, accruals and other payables.

Financial liabilities are recognised when the Group becomes a party to the contractual agreements of the instrument. All interest-related charges are recognised as an expense in the consolidated statement of profit or loss and other comprehensive income.

Financial liabilities are initially measured at fair value, and subsequently measured at amortised cost, using the effective interest rate method.

Financial liabilities are derecognised if the Group's obligations specified in the contract expire or are discharged or cancelled.

#### OFFSETTING FINANCIAL INSTRUMENTS

Financial assets and liabilities are offset and the net amount presented in the consolidated statement of financial position when, and only when, the Group has a legal right to offset the amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

### (I) IMPAIRMENT OF NON-CURRENT ASSETS

The carrying amounts of the Group's non-financial assets are reviewed as at the end of each reporting period to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated. If it is not possible to estimate the recoverable amount of the individual asset, then the recoverable amount of the cash-generating unit to which the assets belong will be identified.

For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). As a result, some assets are tested individually for impairment and some are tested at cash-generating unit level.

Individual assets or cash-generating units are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

An impairment loss is recognised for the amount by which the assets or cash-generating unit's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of fair value, reflecting market conditions less costs of disposal and value in use, based on an internal discounted cash flow evaluation. Impairment losses are recognised in profit or loss.

An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount or when there is an indication that the impairment loss recognised for the asset no longer exists or decreases. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined if no impairment loss had been recognised.

## 5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### (J) INVENTORIES

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the weighted average method. The cost of finished goods and work in progress comprises raw materials, direct labour, other direct costs and a proportion of manufacturing overheads based on normal operating capacity but excluding borrowing costs. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

### (K) EMPLOYEE BENEFITS

#### SHORT-TERM EMPLOYEE BENEFITS

Short-term benefit obligations, including accumulated compensated absences, are measured on an undiscounted basis and are expensed as the related service is provided.

A provision is recognised for the amount expected to be paid under short-term cash bonuses if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

#### DEFINED CONTRIBUTION PLANS

The Group pays contributions to defined contribution plans which are post-employment benefit plans under which the Group pays fixed contributions into publicly or privately administered pension insurance entities. The Group has no further payment obligations once the contributions have been paid. Obligations for contributions to defined contribution pension plans are recognised as an employee benefit expense in profit or loss in the periods during which services are rendered by employees.

### (L) OPERATING LEASES

Rentals payable under operating leases are recognised in profit or loss on a straight-line basis over the term of the relevant lease unless another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed. Contingent rentals are accounted for by revising the minimum lease payments over the remaining term of the lease when the lease adjustment is confirmed.

Lease incentives received are recognised as an integral part of the total lease expense, over the term of the lease.

## 5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### (M) FOREIGN CURRENCY

#### (A) FOREIGN CURRENCY TRANSACTIONS

Foreign currency transactions are translated to the respective functional currencies of Group entities at exchange rates as at the dates of the transactions.

Monetary assets and liabilities denominated in foreign currencies as at the end of the reporting period are retranslated to the functional currency at the exchange rate as at the end of the reporting period.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate as at the date of transaction.

Foreign currency differences arising on translation are recognised in profit or loss except for differences arising from the translation of monetary items that in substance form part of the Group's net investment in a foreign operation, which are recognised initially in a separate component of equity as foreign currency translation reserve in the consolidated statement of financial position and recognised in the consolidated statement of profit or loss and other comprehensive income on disposal of the foreign operation. In the Group entities' respective financial statements, such exchange differences are recognised in the profit or loss.

#### (B) FOREIGN OPERATIONS

The assets and liabilities of foreign operations are translated to RMB at exchange rates as at the end of the reporting period.

The income and expenses of foreign operations are translated to RMB at average exchange rates. None of the Group entities has the currency of a hyper-inflationary economy.

All resultant currency translation differences are recognised in foreign currency translation reserve in other comprehensive income. When a foreign operation is disposed of, in part or in full, the relevant amount in foreign currency translation reserve is transferred to profit or loss. However, if the operation is a non-wholly-owned subsidiary, then the relevant proportionate share of the translation difference is allocated to the non-controlling interests. When a foreign operation is disposed of such that control, significant influence or joint control is lost, the cumulative amount in the translation reserve related to that foreign operation is reclassified to profit or loss as part of the gain or loss on disposal. When the Group disposes of only part of its interest in a subsidiary that includes a foreign operation while retaining control, the relevant proportion of the cumulative amount is reattributed to non-controlling interests.

## 5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### (N) INCOME TAXES

Income tax expense comprises current and deferred tax. Income tax expense is recognised in profit or loss except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current taxation is provided at tax rates enacted or substantively enacted as at the end of the reporting period, and any adjustment to tax payable in respect of prior years.

Deferred taxation is provided at the current taxation rate on all temporary differences existing as at the end of the reporting period between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax is not recognised for the following temporary differences: the initial recognition of goodwill, the initial recognition of an asset or liability in a transaction that is not a business combination and that affects neither accounting nor taxable profit, and differences relating to investments in subsidiaries and jointly-controlled entities to the extent that the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted as at the end of the reporting period.

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authorities on the same taxable entity, or on different tax entities, provided they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realised simultaneously.

A deferred tax asset is recognised for unused tax losses, tax credits and deductible temporary differences, to the extent that it is probable that future taxable profits will be available against which they can be utilised. Deferred tax assets are reviewed as at the end of each reporting period and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

### (O) KEY MANAGEMENT PERSONNEL

Key management personnel of the Group are those persons having the authority and responsibility for the planning, directing and controlling the activities of the Group. Key management personnel include the directors and senior management of the Group.

## 5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### (P) RELATED PARTY TRANSACTIONS

A related party is a person or entity that is related to the Group.

(a) A person or a close member of that person's family is related to the Group if that person:

(i) has control or joint control over the Group;

(ii) has significant influence over the Group; or

(iii) is a member of the key management personnel of the Group or of a parent of the Group.

(b) An entity is related to the Group if any of the following conditions applies:

(i) the entity and the Group are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).

(ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).

(iii) Both entities are joint ventures of the same third party.

(iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.

(v) The entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group. If the Group is itself such a plan, the sponsoring employers are also related to the Group.

(vi) The entity is controlled or jointly controlled by a person identified in (a).

(vii) A person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

A transaction is considered to be a related party transaction when there is a transfer of resources or obligations between related parties.

Close family members of an individual are those family members who may be expected to influence by, that person in their dealings with the entity.

## 5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### (Q) EARNINGS PER SHARE

Basic earnings per share is calculated by dividing the profit or loss attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the year. Diluted earnings per share is not presented as the Company does not have any dilutive potential ordinary shares.

### (R) REVENUE RECOGNITION

Revenue from the sale of goods is measured at the fair value of the consideration received or receivable, net of returns and allowances, goods and services taxes or other sales taxes, trade discounts and volume rebates. Revenue is recognised when the significant risks and rewards of ownership have been transferred to the buyer, recovery of the consideration is probable, the associated costs and possible return of goods can be estimated reliably, and there is no continuing management involvement with the goods. Transfer of risks and rewards occurs when the goods are received by the customer.

### (S) INTEREST INCOME

Interest income is recognised on a time proportion basis using the effective interest rate method.

### (T) DIVIDEND DISTRIBUTION

Final dividends proposed by the directors are not accounted for in shareholders' equity as an appropriation of retained profit, until they have been approved by the shareholders in a general meeting. When these dividends have been approved by the shareholders and declared, they are recognised as a liability.

Interim dividends are recognised directly as a liability when they are proposed and declared, because of the articles of association of the Company grant the directors the authority to declare interim dividends. Consequently, interim dividends are recognised directly as a liability when they are proposed and declared.

### (U) SEGMENT REPORTING

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Group's other components. Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker has been identified as Group Executive Chairman who makes strategic resources allocation decisions.

### (V) CURRENT ASSETS AND LIABILITIES

Current assets are expected to be realized within twelve months of the reporting date or in the normal course of the operating cycle. Current liabilities are expected to be settled within twelve months of the reporting date or in the normal course of the operating cycle.

## 6. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

The preparation of consolidated financial statements in conformity with IFRSs requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgment about carrying amounts of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised if the revision affects only that period, or in the period of revision and future periods if the revision affects both current and future periods.

The critical accounting estimates and assumptions used are detailed below:

### CRITICAL ACCOUNTING ESTIMATES AND ASSUMPTIONS

#### (A) IMPAIRMENT OF INVESTMENTS IN SUBSIDIARIES *(NOTE 14)*

Investments in subsidiaries are tested for impairment when there are indicators that the carrying amounts may not be recoverable or indications that an impairment loss recognised in prior periods may no longer exist or may have decreased as at the end of the reporting period. Recoverable amount is defined as the higher of an asset's or cash generating unit's fair value less costs of disposal and its value-in-use.

In making this judgment, the Group determined the recoverable amount of the cash-generating units using fair value less disposal cost of the cash-generating unit in respect of property, plant and equipment and the realization of net assets as at 31 October 2015. The assumption applied in the fair valuation assessment is disclose in Note 7. The net assets after the fair valuation assessment of the investment in subsidiaries are disclosed in Note 14.

In prior period, the group determined the recoverable amount using value-in-use (as it was higher than fair value less disposal cost) which involves estimating the future cash flows expected from the cash-generating units and an appropriate discount rate in order to calculate the present value of the future cash flows, taking into account business outlook, including factors such as industry and sector performance, general market and economic conditions and other available information. As at 31 October 2014, a 1% increase/decrease in discount rate would result in an increase/decrease in impairment loss in subsidiaries by approximately RMB12,411,000 and RMB17,430,000 respectively.

#### (B) USEFUL LIVES OF PROPERTY, PLANT AND EQUIPMENT *(NOTE 15)*

Property, plant and equipment are depreciated on a straight-line basis over their estimated useful lives. Management estimates the useful lives of plant and equipment to be within the range as indicated in the accounting policy for plant and equipment and depreciation. Changes in the expected level of usage and technological obsolescence could impact the economic useful lives of these assets, leading to potential changes in future depreciation charges, impairment losses and/or write-offs. As at 31 October 2015, a 10% increase/decrease in the estimated useful lives of property, plant and equipment would result in an increase/decrease in the carrying amount of the property, plant and equipment by approximately RMB2,762,000 (2014: RMB3,817,000) and RMB3,377,000 (2014: RMB4,665,000) respectively.

## 6. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS (CONTINUED)

### CRITICAL ACCOUNTING ESTIMATES AND ASSUMPTIONS (CONTINUED)

#### (C) IMPAIRMENT OF NON-CURRENT ASSETS *(NOTES 7, 15 AND 16)*

Non-current assets are reviewed to determine whether there is any indication that the carrying value of these assets may not be recoverable and have suffered an impairment loss or indications that an impairment loss recognised in prior periods may no longer exist or may have decreased as at the end of the reporting period. If any such indication exists, the assets are tested for impairment. The recoverable amount of the assets is estimated in order to determine the extent of the impairment loss or reversal of impairment loss, if any. The recoverable amount is the higher of an asset's fair value less costs of disposal and value in use.

#### (D) FAIR VALUE MEASUREMENT OF NON-CURRENT ASSETS *(NOTES 7, 15 AND 16)*

In regard to the impairment assessment in Note 6(a) and 6(c), an independent valuation was performed by the valuers to determine the fair value less cost of disposal of the Group's property, plant and equipment. The fair value of the land use right was determined based on the market comparable approach that reflects recent transaction prices for similar properties (Level 2 valuation). The fair value of building was determined using depreciated replacement cost approach (Level 3 valuation). This approach was based on an estimate of the cost of reproduce with allowance for accrued depreciation as evidenced by observed condition or obsolesce present in the properties. The fair value of machinery and equipment were determined based on established used market comparable. In the absence of market comparable, the fair value was determined based on cost to reproduce or replacement under new condition with current market prices for similar assets, with allowance for accrued depreciation arising from the conditions, utility, age, wear and tear, or obsolescence present (physical, functional or economic), taking into consideration past and present maintenance policy and rebuilding history (Level 3 valuation). The recoverability of these amounts is dependent on the assumptions; and actual results are likely to be different from the estimates since anticipated events frequently do not occur as expected and the variation could be material.

The critical accounting judgments are detailed below:

### CRITICAL ACCOUNTING JUDGMENTS

#### (A) INCOME TAXES *(NOTE 12)*

Significant judgment is required in determining the provision for income taxes. The Group recognises, as current liabilities, liabilities for anticipated tax issues based on estimates of whether additional taxes will eventually be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

## 7. IMPAIRMENT OF NON-CURRENT ASSETS

### FY2015

During the year ended 31 October 2015, the Group recognised substantial loss from operation and deficit in cash flow from operating activities. Under the requirements of IAS 36, the loss and negative operating cash flow are indicators of impairment which requires management to perform impairment testing of the Group's non-current assets. In view of the persistence of production issues and significant decline in profitability in the current year since the last financial year end, which were indicators of impairment under IAS 36, during the current year the Board conducted two comprehensive reviews on the carrying value of the Group's non-current assets respectively as at the interim period ended 30 April 2015 and financial year ended 31 October 2015. The Board commissioned Peak Vision Appraisals Limited ("Peak Vision"), an independent valuer, which is a Registered Professional Surveyor and Registered Business Valuer, to assess the carrying value of the Group's assets as of the respective period and year end date.

According to the Peak Vision's valuation reports dated 28 December 2015, there was a shortfall of approximately RMB56.6 million to the carrying value of the Group's non-current assets as at the year ended 31 October 2015. The shortfall in the Group's non-current assets was a net amount comprising of (i) a shortfall of RMB72.4 million arising from property, plant and equipment and (ii) a surplus of RMB15.8 million arising from land use rights. The shortfall and surplus to the carrying value represented the need of recognising an impairment loss and reversal.

This is the first financial year that the Group determined the recoverable amount based on FVLCD. An independent valuation of the Group's property, plant and equipment was performed by independent valuer not connected with the Group, who have appropriate qualifications and recent experience in the fair value measurement of the properties to determine the fair value of the property, plant and equipment as at 31 October 2015. The fair valuation of the assets had taken into consideration the cost of disposal as required under IAS 36. The following table analyses the non-financial assets carried at fair value, by valuation method. The different levels have been defined as follows:

Level 1 – Quoted prices (unadjusted) in active markets for identical asset.

Level 2 – Inputs other than quoted prices included within level 1 that are observable for the asset either directly (that is, as prices) or indirectly (that is, derived from prices).

Level 3 – Inputs for the asset that are not based on observable market data (that is, unobservable inputs).

| | Fair value measurements at 31 October 2015 | | |
|---|---|---|---|
| | Level 2 | Level 3 | Total |
| | RMB'000 | RMB'000 | RMB'000 |
| Land use rights | 51,360 | 74 | 51,434 |
| Leasehold buildings | – | 100,966 | 100,966 |
| Plant and machinery | – | 55,606 | 56,606 |
| Others | – | 134 | 134 |
| | 51,360 | 157,780 | 209,140 |

## 7. IMPAIRMENT OF NON-CURRENT ASSETS (CONTINUED)

### FY2015 (CONTINUED)

#### VALUATION TECHNIQUES USED TO DERIVE LEVEL 2 FAIR VALUES

Level 2 fair values of land use rights have been derived using the sales comparison approach. Sales prices of comparable land in close proximity are adjusted for differences in key attributes such as property size. The most significant input into this valuation is price per square foot.

#### FAIR VALUE MEASUREMENTS USING SIGNIFICANT UNOBSERVABLE INPUTS (LEVEL 3)

Level 3 fair value of the properties were determined using the cost approach that reflects the cost to a market participant to construct assets of comparable utility and age, adjusted for obsolescence. The significant inputs include the estimated construction costs and other ancillary expenditure, and a depreciation factor applied to the estimated construction cost. An increase in the depreciation factor would result in a decrease in fair value of the properties, and an increase in the estimated construction costs would result in an increase in the fair value of the properties, and vice versa.

Part of the land use rights and leasehold buildings was determined based on capitalization of the hypothetical and reasonable market rents up to the expiry of the land use term due to the short land use term which is expiring on 7 September 2016. The significant input includes the market monthly rental of comparable lands and buildings in close proximity adjusted for differences in key attribute such as property size. The most significant input into this valuation is average rental per square foot which is approximated RMB5.20 per square foot. An increase in the average rental would result in an increase in the fair value of the lands and buildings, and vice versa.

Part of the plant and machinery was determined based on dismantlement and removal basis due to the expiry of land use right and the advanced age of machinery (Level 3 valuation). The fair valuation takes into consideration of those machineries that cannot be relocated and which are therefore assessed at their scrap values and the associated dismantling cost incurred to remove the assets from its present location.

## 7. IMPAIRMENT OF NON-CURRENT ASSETS (CONTINUED)

### FY2015 (CONTINUED)

An impairment loss of RMB56.6 million was recognized during year ended 31 October 2015 in relation to the Group's non-current assets based on the impairment assessment by management. The calculation of impairment loss and reversal of impairment loss is as follows:

| | As at 31 October 2015 RMB'000 |
|---|---|
| Carrying amount of: | |
| – Property, plant and equipment | 230,108 |
| – Land use rights | 35,647 |
| | 265,755 |
| FVLCD of: | |
| – Property, plant and equipment | 157,706 |
| – Land use rights | 51,434 |
| | 209,140 |
| Shortfall/(surplus) of FVLCD over the carrying amount of: | |
| – Property, plant and equipment | 72,402 |
| – Land use rights | (15,787) |
| | 56,615 |

The shortfall arising from property, plant and equipment during year ended 31 October 2015 was mainly due to the following factors;

(i) the operation of the production lines in Yuntong may be permanently closed down in 2016 according to the management plan, as a result the machineries which will be abandoned were apprised on dismantling and disposal basis;

(ii) unexpected deterioration of operating and economic performance of the production line no. 3 at Yuntong;

(iii) changing technology in the machineries and facilities in the industry; and

(iv) changing market demand in all segments.

## 7. IMPAIRMENT OF NON-CURRENT ASSETS (CONTINUED)

### FY2015 (CONTINUED)

The surplus arising from land use rights during year ended 31 October 2015 was mainly due to the following factors;

(i) the use of the higher of FVLCD and VIU. In the last financial year, the recoverable amount of the land use rights was determined based on a VIU (which was higher than FVLCD) on the Group's cash-generating units, in which cash flow projections for the Group's business were used in the calculation and the resulting shortfall was allocated to land use rights on a pro-rata basis. In 2015, the FVLCD was higher than VIU. This resulted in the surplus and hence reversal of impairment loss in land use rights; and

(ii) appreciation in value in the prevailing land lease market in the People's Republic of China.

The impairment loss is a non-cash flow item and is not expected to have any adverse impact on the operations of the Group.

### FY2014

In view of lower sub-standard product rate and rejection rate and favorable change in product mix during the year 31 October 2014, the Board of Directors also conducted comprehensive review of the carrying values of the Group's non-current assets as at the end of the reporting period. Based on the result of assessments in accordance with IAS 36, a surplus of the recoverable amount of the Group's non-current assets over the carrying amount of approximately RMB1,023,000 was noted. Notwithstanding the surplus, management has determined that as the service potential of the Group's non-current assets has not increased owing to the same plant and machineries being in use in generating future cash flows, no reversal of impairment loss recognised in prior periods was recognised on the carrying values of the Group's non-current assets during the year ended 31 October 2014.

The Group's cash-generating units ("CGUs") are identified according to the operating subsidiaries in the People's Republic of China, namely Jieyang City Rui Xing Plastic Packaging Co., Ltd. ("Rui Xing") and Jieyang City Yuntong Plastic Packaging Co., Ltd. ("Yuntong").

Management is required to compute the recoverable amounts of the non-current assets which are defined as the higher of fair value less costs of disposal ("FVLCD") and value in use ("VIU"). The management has prepared cash flow forecasts and appointed an independent firm of professional valuer to issue a valuation report on the VIU of the non-current assets dated 16 January 2015 for financial year 2014.

In prior period, the recoverable amount of a CGU was determined based on VIU. Cash flow projections used in these calculations were based on financial budgets approved by management covering a five-year period from 2015 to 2019. The cash flow projections represent expected income less related costs and are based on past experience and expectations for the plastic packaging industry in general. A pre-tax discount rate of approximately 17.25% and 18.34% for Rui Xing and Yuntong respectively has been applied to the cash flow projections. Based on the result of the assessment, there was no impairment being recognised as the recoverable amount based on VIU was higher than the carrying amount of the assets.

## 7. IMPAIRMENT OF NON-CURRENT ASSETS (CONTINUED)

### FY2014 (CONTINUED)

As at 31 October 2014, in accordance with the VIU calculated based on the cash flow forecast, it is noted that the recoverable amount of property, plant and equipment and land use right exceeded the carrying amount by approximately RMB1,023,000 as follows:

| | **2014** RMB'000 |
|---|---|
| VIU of CGUs | 298,655 |
| Less: Carrying amount of CGUs (consisting of property, plant and equipment) | (297,632) |
| Excess of VIU over carrying amount | 1,023 |

Notwithstanding the above surplus of the recoverable amount of the Group's CGUs over the carrying amount, management has determined that as the service potential of the Group's CGUs has not increased owing to the same plant and machineries being in use in generating future cash flows, no reversal of impairment loss recognised in prior periods was recognised on the carrying values of the Group's non-current assets during the year ended 31 October 2014 in accordance with IAS 36.

## 8. FINANCIAL INSTRUMENTS

### (A) CATEGORIES OF FINANCIAL INSTRUMENTS

| | **Group** | | **Company** | |
|---|---|---|---|---|
| | **2015** RMB'000 | 2014 RMB'000 | **2015** RMB'000 | 2014 RMB'000 |
| **Financial assets** | | | | |
| Loan and receivables: | | | | |
| – Accounts receivable | **30,744** | 101,232 | **–** | – |
| – Deposits | **118** | 103 | **–** | – |
| – Cash and cash equivalents | **18,729** | 28,716 | **297** | 35 |
| | **49,591** | 130,051 | **297** | 35 |
| **Financial liabilities** | | | | |
| Amortised cost: | | | | |
| – Accounts payable | **1,750** | – | **–** | – |
| – Accruals and other payables | **4,971** | 8,583 | **163** | 217 |
| | **6,721** | 8,583 | **163** | 217 |

## 8. FINANCIAL INSTRUMENTS (CONTINUED)

### (B) FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Board of Directors has overall responsibility for the establishment and oversight of the Group's risk management framework. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise adverse effects from the unpredictability of financial markets on the Group's financial performance.

The Group and the Company do not hold or issue derivative financial instruments for trading purposes or to hedge against fluctuations, if any, in interest rates and foreign exchange.

### (C) MARKET RISK

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices will affect the Group's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return.

#### FOREIGN CURRENCY RISK

The Group and the Company has exposure to foreign currency risk in respect of the bank balances denominated in Hong Kong dollars ("HKD"), United States dollars ("USD") and Singapore dollars ("SGD").

The Group's and the Company's exposures to foreign currencies are as follows:

| | Group | | Company | |
|---|---|---|---|---|
| | **2015** | 2014 | **2015** | 2014 |
| **RMB equivalent** | **RMB'000** | RMB'000 | **RMB'000** | RMB'000 |
| HKD *(Note 20)* | **1,095** | 285 | **5** | 8 |
| USD *(Note 20)* | **65** | 63 | **3** | 3 |
| SGD *(Note 20)* | **289** | 24 | **289** | 24 |
| Net currency exposure | **1,449** | 372 | **297** | 35 |

*Sensitivity analysis – Foreign currency risk*

As at 31 October 2015, a 10% (2014: 10%) strengthening of the above currencies against the functional currencies of the respective subsidiaries of the Group and the Company would have decreased loss before taxation and equity (2014: increased profit before taxation and equity) by the amounts shown in the following table. This analysis is based on foreign currency exchange rate variances that the Group considered to be reasonably possible at the end of the reporting period. The analysis assumes that all other variables, in particular interest rates, remain constant and does not take into account the associated tax effects.

As at 31 October 2015, a 10% (2014: 10%) weakening of the above currencies against the functional currencies of the respective subsidiaries of the Group and the Company would have an equal but opposite effect to the amounts shown in the following table, on the basis that all other variables remain constant.

## 8. FINANCIAL INSTRUMENTS (CONTINUED)

### (C) MARKET RISK (CONTINUED)

#### FOREIGN CURRENCY RISK (CONTINUED)

*Sensitivity analysis – Foreign currency risk (continued)*

**Group – 2015**

| **RMB equivalent** | **HKD RMB'000** | **USD RMB'000** | **SGD RMB'000** | **Total RMB'000** |
|---|---|---|---|---|
| RMB weakened | | | | |
| Decrease in loss before taxation and equity | **110** | **6** | **29** | **145** |

Group – 2014

| RMB equivalent | HKD RMB'000 | USD RMB'000 | SGD RMB'000 | Total RMB'000 |
|---|---|---|---|---|
| RMB weakened | | | | |
| Increase in profit before taxation and increase in equity | 29 | 6 | 2 | 37 |

**Company – 2015**

| **RMB equivalent** | **HKD RMB'000** | **USD RMB'000** | **SGD RMB'000** | **Total RMB'000** |
|---|---|---|---|---|
| RMB weakened | | | | |
| Decrease in loss before taxation and equity | **–** | **–** | **29** | **29** |

Company – 2014

| RMB equivalent | HKD RMB'000 | USD RMB'000 | SGD RMB'000 | Total RMB'000 |
|---|---|---|---|---|
| RMB weakened | | | | |
| Increase in profit before taxation and increase in equity | 1 | – | 2 | 3 |

#### INTEREST RATE RISK

Interest rate risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Group is exposed to interest rate risk in respect of bank balances earning interest at variable rates.

## 8. FINANCIAL INSTRUMENTS (CONTINUED)

### (C) MARKET RISK (CONTINUED)

#### INTEREST RATE RISK (CONTINUED)

As at 31 October 2015, for bank balances at variable rates, an increase of 50 basis points (2014: 50 basis points) in interest rate would decrease the Group's loss before taxation and equity (2014: increase the Group's profit before taxation and equity) by approximately RMB94,000 (2014: RMB143,000). A decrease of 50 basis points (2014: 50 basis points) in interest rate would have an equal but opposite effect. The magnitude represents management's assessment of the likely movement in interest rates under normal economic conditions. This analysis has not taken into account the associated tax effects and assumes that all other variables, in particular foreign currency rates, remain constant.

### (D) EQUITY PRICE RISK

The Group is not exposed to any movement in equity price risk as it does not hold any quoted or marketable financial instruments.

### (E) CREDIT RISK

Credit risk refers to the risk that counterparties may default on their contractual obligations resulting in financial loss to the Group. The Group's exposure to credit risk arises primarily from accounts and other receivables.

The Group manages these risks by monitoring credit-worthiness of counterparties and limiting the aggregate risk to any individual counterparty.

The Group has adopted a policy of only dealing with creditworthy counterparties as a means of mitigating the risk of financial loss from such defaults. The Group does not require collateral from its customers.

Bank balances are placed with reputable financial institutions of high credit rating.

The Group establishes an allowance for impairment that represents its estimate of incurred losses in respect of accounts and other receivables. The main component of this allowance is a specific loss component that relates to individually significant exposures. The allowance account in respect of accounts receivable and other receivables is used to record impairment loss unless the Group is satisfied that no recovery of the amount owing is possible. At that point, the financial asset is considered irrecoverable and the amount charged to the allowance account is written off against the carrying amount of the impaired financial asset.

As at the end of the reporting period, the Group's and the Company's maximum exposure to credit risk which will cause a financial loss to the Group and the Company due to the failure to discharge an obligation by the counterparties is arising from the carrying amount of the respective financial assets as stated in the statements of financial position of the Group and the Company. There is no significant concentration of credit risk, as the exposure is spread over a large number of counter-parties and customers unless otherwise disclosed in the notes to the consolidated financial statements. No other financial assets carry a significant exposure to credit risk.

As at 31 October 2015, no allowance was made in respect of the Group's accounts receivable after an assessment of the creditworthiness of the counterparties and credit quality and past collection history of the customers including current and potential disputes by customers on the quality of the Group's products *(Note 18)*.

As at 31 October 2015, 5 (2014:5) customers of two subsidiaries collectively accounted for approximately 51.8% (2014: 21.4%) of total net account receivables of the Group.

## 8. FINANCIAL INSTRUMENTS (CONTINUED)

### (F) LIQUIDITY RISK

Liquidity or funding risk is the risk that an enterprise will encounter difficulty in raising funds to meet commitments associated with financial instruments. Liquidity risk may result from an inability to sell a financial asset quickly at close to its fair value. The Group manages liquidity risk by maintaining sufficient level of cash to meet its working capital requirement, monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities.

The table below analyses the maturity profile of the Group's and the Company's financial liabilities based on contractual undiscounted cash flows. Refer to Note 2 on going concern assumptions which affects the liquidity assumptions of the Group and the Company.

**Group – 2015**

| | | Contractual undiscounted cash flows | | | |
|---|---|---|---|---|---|
| | **Carrying amount RMB'000** | **Total RMB'000** | **Less than 1 year RMB'000** | **Between 2 and 5 years RMB'000** | **Over 5 years RMB'000** |
| Accounts payable *(Note 23)* | **1,750** | **1,750** | **1,750** | **–** | **–** |
| Accruals and other payables *(Note 24)* | **4,971** | **4,971** | **4,971** | **–** | **–** |
| | **6,721** | **6,721** | **6,721** | **–** | **–** |

Group – 2014

| | | Contractual undiscounted cash flows | | | |
|---|---|---|---|---|---|
| | Carrying amount RMB'000 | Total RMB'000 | Less than 1 year RMB'000 | Between 2 and 5 years RMB'000 | Over 5 years RMB'000 |
| Accruals and other payables *(Note 24)* | 8,583 | 8,583 | 8,583 | – | – |

## 8. FINANCIAL INSTRUMENTS (CONTINUED)

### (F) LIQUIDITY RISK (CONTINUED)

**Company – 2015**

| | Carrying amount RMB'000 | Contractual undiscounted cash flows | | | |
|---|---|---|---|---|---|
| | | Total RMB'000 | Less than 1 year RMB'000 | Between 2 and 5 years RMB'000 | Over 5 years RMB'000 |
| Accruals and other payables *(Note 24)* | **163** | **163** | **163** | **–** | **–** |

Company – 2014

| | Carrying amount RMB'000 | Contractual undiscounted cash flows | | | |
|---|---|---|---|---|---|
| | | Total RMB'000 | Less than 1 year RMB'000 | Between 2 and 5 years RMB'000 | Over 5 years RMB'000 |
| Accruals and other payables *(Note 24)* | 217 | 217 | 217 | – | – |

### (G) FAIR VALUES OF FINANCIAL INSTRUMENTS

The fair values of financial assets and financial liabilities are determined as follows:

The fair values of financial assets and financial liabilities with standard terms and conditions and trade in active markets are determined with reference to quoted market bid and ask prices respectively.

The fair values of other financial assets and financial liabilities are determined in accordance with generally accepted pricing models based on discounted cash flow analysis.

The Board of Directors considers that the carrying amounts of financial assets and financial liabilities recorded in the consolidated financial statements approximate to their fair value.

The Group uses the following hierarchy for determining and disclosing the fair values of financial instruments based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

No analysis is disclosed since the Group has no financial instruments that are measured subsequent to initial recognition at fair value as at 31 October 2015 and 2014.

There were no transfers between level 1 and 2 for the years ended 31 October 2015 and 2014.

## 9. OPERATING SEGMENTS

For management reporting purposes, the Group is organised into the following reportable operating segments which are the Group's strategic business units as follows:

(a) Manufacturing and sales – involved in the manufacturing and sales of packaging products

(b) Corporate – includes corporate office which incurs general corporate expenses and inactive Group entities

Segment accounting policies are the same as the policies described in Note 5. There were no inter-segment transactions during the year (2014: inter-segment sales).

### SEGMENT REVENUE AND EXPENSES

Segment revenue and expenses are the operating revenue and expenses reported in the Group's consolidated statement of profit or loss and other comprehensive income that are directly attributable to a segment and the relevant portion of such revenue and expense that can be allocated on a reasonable basis to a segment.

### SEGMENT ASSETS AND LIABILITIES

Segment assets and liabilities include items directly attributable to a segment as well as those can be allocated on a reasonable basis. Capital expenditure includes the total cost incurred to acquire property, plant and equipment directly attributable to the segment.

The Group's Chairman and Chief Executive Officer ("CEO") monitors the operating results of its operating segments for the purpose of making decisions about resource allocation and performance assessment.

Information regarding the results of each reportable segment is included below. Performance is measured based on segment profit before income tax, as included in the internal management reports that are reviewed by the Group CEO.

## 9. OPERATING SEGMENTS (CONTINUED)

| | Manufacturing and sales of packaging product | | Corporate | | Total | |
|---|---|---|---|---|---|---|
| | **2015 RMB'000** | 2014 RMB'000 | **2015 RMB'000** | 2014 RMB'000 | **2015 RMB'000** | 2014 RMB'000 |
| **Segment revenue** | | | | | | |
| Sales to external customers | **338,863** | 631,003 | **–** | – | **338,863** | 631,003 |
| **Segment results** | **(178,005)** | 7,376 | **(4,502)** | (4,627) | **(182,507)** | 2,749 |
| Interest income | **145** | 134 | **–** | – | **145** | 134 |
| Sale of scrap materials | **80** | 128 | **–** | – | **80** | 128 |
| Gain on disposal of property, plant and equipment | **–** | 35 | **–** | – | **–** | 35 |
| Sundry income | **–** | – | **2** | 1 | **2** | 1 |
| **(Loss)/profit before taxation** | **(177,780)** | 7,673 | **(4,500)** | (4,626) | **(182,280)** | 3,047 |
| Income tax expenses | **–** | – | **–** | – | **–** | – |
| **(Loss)/profit for the year attributable to owners of the Company** | **(177,780)** | 7,673 | **(4,500)** | (4,626) | **(182,280)** | 3,047 |
| **Segment assets** | **275,645** | 455,824 | **1,576** | 482 | **277,221** | 456,306 |
| **Segment liabilities** | **11,347** | 8,172 | **410** | 411 | **11,757** | 8,583 |
| **Other segment information:** | | | | | | |
| Capital expenditure | **–** | – | **–** | – | **–** | – |
| Depreciation of property, plant and equipment | **30,680** | 41,966 | **19** | 19 | **30,699** | 41,985 |
| Amortisation of land use right | **1,189** | 1,029 | **–** | – | **1,189** | 1,029 |
| Provision for write-down of inventories to net realisable value | **1,861** | – | **–** | – | **1,861** | – |

## 9. OPERATING SEGMENTS (CONTINUED)

### GEOGRAPHICAL INFORMATION

The Group's operations are located in the PRC and all of the Group's products are sold to customers in the PRC. Hence, no analysis by geographical area of operations is provided.

### INFORMATION ABOUT MAJOR CUSTOMERS

No information about major customers is presented as no single customer contributed over 10% of the total revenue of the Group during the current financial year (2014: Nil).

## 10. REVENUE

| | Group | |
|---|---|---|
| | **2015** | 2014 |
| | **RMB'000** | RMB'000 |
| Sales of plastic packaging products | **338,863** | 631,003 |

## 11. (LOSS)/PROFIT BEFORE TAXATION

The following items have been included in arriving at (loss)/profit before taxation:

| | Group | |
|---|---|---|
| | **2015** | 2014 |
| | **RMB'000** | RMB'000 |
| Cost of inventories included in cost of sales | **419,424** | 504,949 |
| Depreciation of property, plant and equipment included in | | |
| – Cost of sales | **27,834** | 38,524 |
| – Administrative expenses | **2,865** | 3,461 |
| | **30,699** | 41,985 |
| Amortisation of land use rights included in cost of sales | **1,189** | 1,029 |
| Auditors' remuneration *(Note (a))* | **1,271** | 1,269 |
| Operating lease expense | **411** | 397 |
| Provision for write-down of inventories to net realisable value | **1,861** | – |
| Gain on disposal of property, plant and equipment | **–** | (35) |

## 11. (LOSS)/PROFIT BEFORE TAXATION (CONTINUED)

| | Group | |
|---|---|---|
| | **2015** | 2014 |
| | **RMB'000** | RMB'000 |
| Directors' remuneration: | | |
| – Directors' fee | **533** | 565 |
| – Salaries, bonuses and other costs | **1,031** | 1,192 |
| | **1,564** | 1,757 |
| Employee benefits expense: | | |
| (a) Salaries, bonuses and other costs included in | | |
| – cost of sales | **14,857** | 14,813 |
| – administrative expenses | **3,118** | 3,888 |
| (b) Contributions to defined contribution plans included in | | |
| – cost of sales | **1,299** | 1,327 |
| – administrative expenses | **276** | 354 |
| | **19,550** | 20,382 |
| **Other operating income:** | | |
| Interest income | **145** | 134 |
| Sale of scrap materials | **80** | 128 |
| Gain on disposal of property, plant and equipment | **–** | 35 |
| Sundry income | **2** | 1 |
| | **227** | 298 |

| | Group | |
|---|---|---|
| | **2015** | 2014 |
| | **RMB'000** | RMB'000 |
| **Other expenses:** | | |
| Bank charges | **42** | 114 |
| Exchange loss | **67** | 7 |
| Impairment loss on non-current assets *(note (b))* | **56,615** | – |
| | **56,724** | 121 |

*Note:*

*(a) No non-audit fees were paid to the external auditors of the Group during the years ended 31 October 2015 and 2014.*

*(b) The impairment loss on non-current assets represent the net impairment loss of the Group's non-current assets of RMB56.6 million consisting of an impairment loss on property, plant and equipment of RMB72.4 million (2014: nil) offset by the reversal of impairment loss of land use rights of RMB15.8 million (2014: nil) as at 31 October 2015.*

## 12. INCOME TAX EXPENSE

| | Group 2015 RMB'000 | 2014 RMB'000 |
|---|---|---|
| **Current tax expense** | | |
| Current year | **–** | – |

### RECONCILIATION OF EFFECTIVE TAX RATE

| | Group 2015 RMB'000 | 2014 RMB'000 |
|---|---|---|
| (Loss)/profit before taxation | **(182,280)** | 3,047 |
| Tax calculated at tax rate of 25% (2014: 25%) | **(45,569)** | 762 |
| Tax effect of different tax rates in other countries | **382** | 393 |
| Tax effect of non-deductible expenses | **691** | 1,205 |
| Tax effect of temporary differences not recognised | **(14,154)** | (168,645) |
| Tax effect of tax losses not recognised | **58,650** | 166,285 |
| | **–** | – |

The temporary difference not recognised mainly relates to impairment of non-current assets that were not recognised as deferred tax assets.

The Group has not recognised a deferred tax asset in respect of the deductible temporary differences and tax losses incurred during the financial years due to the unpredictability of future profit streams. As at 31 October 2015, the Group has unrecognised tax losses of approximately RMB1,313,412,000 (2014: RMB1,148,062,000) which can be carried forward to offset future taxable profits. All tax losses will expire after five years from the year of assessment they relate to.

The unrecognized tax losses will expire as follows:

| | Group 2015 RMB'000 | 2014 RMB'000 |
|---|---|---|
| Year 2017 | **161,518** | 161,518 |
| Year 2018 | **321,404** | 321,404 |
| Year 2019 | **665,140** | 665,140 |
| Year 2020 | **165,350** | – |
| | **1,313,412** | 1,148,062 |

## 13. (LOSS)/EARNINGS PER SHARE

| | Group | |
|---|---|---|
| | **2015** | 2014 |
| | **RMB'000** | RMB'000 |
| Net (loss)/profit for the year attributable to owners of the Company (A) | **(182,280)** | 3,047 |

| | Number of ordinary shares | |
|---|---|---|
| | **2015** | 2014 (Restated) |
| Weighted average number of ordinary shares as at beginning and end of the year (B) *(Note)* | **4,860,956** | 4,860,956 |
| Basic and diluted (loss)/earnings per share (A)/(B) | **RMB(37.49)** | RMB0.63 |

The Company did not have any stock options or dilutive potential ordinary shares during the years ended 31 October 2015 and 2014.

*Note: On 14 August 2015, the Company completed a share consolidation of every one hundred (100) ordinary shares of par value US$0.15 each in the capital of the Company into one (1) ordinary share of par value US$15.00. There were in number 335 shares arising from fractions of consolidated shares.*

*The basic and diluted earnings per share of all periods presented shall be adjusted for the effects from share consolidation accounted for retrospectively. Upon the share consolidation becoming effective, issued number of shares of 486,129,104 were consolidated into 4,860,956.*

*The number of ordinary shares and earning per share for financial year ended 31 October 2014 are restated for the effect of the share consolidation.*

## 14. INVESTMENTS IN SUBSIDIARIES

| | Company | |
|---|---|---|
| | **2015** | 2014 |
| | **RMB'000** | RMB'000 |
| Unquoted equity shares, at cost | **486,073** | 486,073 |
| Non-trade amounts due from subsidiaries | **571,279** | 573,965 |
| | **1,057,352** | 1,060,038 |
| Impairment loss on net investment in subsidiaries | **(793,054)** | (761,383) |
| | **264,298** | 298,655 |

The non-trade amounts owing by subsidiaries are an extension of the Company's net investment in the subsidiaries. These are unsecured, interest-free and are not expected to be repaid within one year. Because they represent net investments, with indeterminable repayments, fair valuation is not appropriate.

## 14. INVESTMENTS IN SUBSIDIARIES (CONTINUED)

### IMPAIRMENT LOSS

During the financial years ended 31 October 2015 and 2014, having regard to the financial performance of certain subsidiaries that have been loss making since prior financial years, an impairment loss of approximately RMB31,671,000 (2014: RMB39,836,000) was recognised in respect of the Company's investments in these subsidiaries to reduce the carrying value of the investments to their recoverable amounts. The recoverable amounts of the investments were determined based on the FVLCD of property, plant and equipment in consideration of the net current assets of subsidiaries which was higher than the VIU method. The assumption of the fair valuation of property, plant and equipment are disclosed in Note 7.

In prior period, the recoverable amount of the investments was determined based on VIU of the subsidiaries, which are determined using pre-tax discount rates of approximately 17.25% and 18.34% for Rui Xing and Yuntong respectively. The value-in-use calculation was based on projected cash flows derived from the financial budgets approved by the management covering a five-year period.

The calculation of the impairment loss is as follows:

| | Company | |
|---|---|---|
| | **2015 RMB'000** | 2014 RMB'000 |
| Unquoted equity shares, at cost | **486,073** | 486,073 |
| Non-trade amounts due from subsidiaries | **571,279** | 573,965 |
| Net investment in subsidiaries | **1,057,352** | 1,060,038 |
| Net assets*/VIU of subsidiaries: | | |
| Rui Xing | **189,213** | 273,704 |
| Yuntong | **75,085** | 24,951 |
| | **264,298** | 298,655 |
| Less: Interest-bearing liabilities | **–** | – |
| Net equity in subsidiaries | **264,298** | 298,655 |
| Provision for impairment loss on net investment in subsidiary | **793,054** | 761,383 |

The movement of the provision for impairment loss on the investments during the years ended 31 October 2015 and 2014 is as follows:

| | Company | |
|---|---|---|
| | **2015 RMB'000** | 2014 RMB'000 |
| As at 1 November | **761,383** | 721,547 |
| Provision for impairment loss during the year *(Note 6(a))* | **31,671** | 39,836 |
| As at 31 October | **793,054** | 761,383 |

* *The Net Assets consist of the recoverable amount of the property, plant and equipment and land use rights which are based on the independent valuation reports using fair value less cost to sell (which was higher than the value in use approach) and includes the net current assets of subsidiaries concerned.*

## 14. INVESTMENTS IN SUBSIDIARIES (CONTINUED)

### IMPAIRMENT LOSS (CONTINUED)

The impairment loss recognised in the current financial year was mainly the result of the reduction in gross FVLCD of net assets of subsidiaries in current year as compared to the VIU of subsidiaries as computed in the previous financial year.

Particulars of subsidiaries are set out below:

| Name of subsidiary | Country of Incorporation/ Principal place of business | Effective equity interest held by the Group (%) 2015 | 2014 | Principal activities |
|---|---|---|---|---|
| Full Best Limited *(note (a))* | British Virgin Islands ("BVI") | **100** | 100 | Investment holding |
| Fortune Desire Group Limited *(note (a) & (b))* | BVI | **100** | 100 | Investment holding |
| Winton International Investment Company Limited *(notes (a) & (c))* | Hong Kong | **100** | 100 | Investment holding |
| Jieyang City Rui Xing Plastic Packaging Co., Ltd. (揭陽市瑞興塑料包裝有限公司) *(notes (a) & (d))* | PRC | **100** | 100 | Manufacture and sale of plastic packaging films |
| Jieyang City Yuntong Plastic Packaging Co., Ltd. (揭陽市運通塑料包裝有限公司) *(notes (a) & (d))* | PRC | **100** | 100 | Manufacture and sale of plastic packaging films, synthetic papers and high barrier films |

*Note:*

*(a) Audited by joint auditors HLB Hodgson Impey Cheng Limited and Foo Kon Tan LLP for consolidation purposes.*

*(b) No statutory audit is required in the country of jurisdiction for BVI entities.*

*(c) Audited by HLB Hodgson Impey Cheng Limited for statutory purposes.*

*(d) Audited by Shan Tou City Feng Ye Certified Public Accountants for statutory purposes.*

## 15. PROPERTY, PLANT AND EQUIPMENT

| Group | Leasehold buildings RMB'000 | Plant and machinery RMB'000 | Motor vehicles RMB'000 | Furniture, fixtures and office equipment RMB'000 | Leasehold improvements RMB'000 | Total RMB'000 |
|---|---|---|---|---|---|---|
| **Cost:** | | | | | | |
| As at 1 November 2013 | 545,145 | 726,100 | 4,270 | 161 | 25 | 1,275,701 |
| Disposal | – | – | (3,529) | – | – | (3,529) |
| As at 31 October 2014 and 1 November 2014 | 545,145 | 726,100 | 741 | 161 | 25 | 1,272,172 |
| Effect of foreign currency exchange differences | – | – | 15 | – | 1 | 16 |
| As at 31 October 2015 | 545,145 | 726,100 | 756 | 161 | 26 | 1,272,188 |
| **Accumulated depreciation and impairment losses:** | | | | | | |
| As at 1 November 2013 | 395,892 | 572,704 | 4,140 | 161 | 12 | 972,909 |
| Charge for the year | 10,655 | 31,237 | 91 | – | 2 | 41,985 |
| Disposal | – | – | (3,529) | – | – | (3,529) |
| As at 31 October 2014 and 1 November 2014 | 406,547 | 603,941 | 702 | 161 | 14 | 1,011,365 |
| Charge for the year | 11,616 | 19,056 | 25 | – | 2 | 30,699 |
| Effect of foreign currency exchange differences | – | – | 15 | – | 1 | 16 |
| Impairment losses recognised in profit or loss | 26,016 | 46,497 | (111) | – | – | 72,402 |
| As at 31 October 2015 | 444,179 | 669,494 | 631 | 161 | 17 | 1,114,482 |
| **Net book value:** **As at 31 October 2015** | **100,966** | **56,606** | **125** | **–** | **9** | **157,706** |
| As at 31 October 2014 | 138,598 | 122,159 | 39 | – | 11 | 260,807 |

As stated in Note 7, the Board of Directors engaged an independent professional valuer to conduct a review of the recoverable amount of the Group's non-current assets as at the end of the reporting period. IAS 36 requires an entity to assess whether there is any indication that an asset may be impaired or an impairment loss recognised in prior periods may no longer exist or may have decreased as at the end of each reporting period. The substantial loss and deficit in operating cash flows reported during the year ended 31 October 2015 are indications of impairment under IAS 36. The recoverable amount of the Group's assets has been determined based on FVLCD based on the assumption in Note 7. As at 31 October 2015, an impairment of approximately RMB72.4 million had been recognised based on independent valuation on the property, plant and equipment.

## 15. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

As at 31 October 2014, the recoverable amount of the Group's assets has been determined based on a value in use calculation on the Group's cash-generating units for manufacture and sales of packaging products, using cash flow projections based on financial budget covering five years approved by the management. A pre-tax discount rate of approximately 17.25% and 18.34% for the two CGUs, Rui Xing and Yuntong, respectively has been applied to the cash flow projections.

Based on the result of independent professional valuer's report, a surplus of the recoverable amount of the Group's non-current assets over the carrying amount of approximately RMB1,023,000 was noted as at 31 October 2014. Notwithstanding this surplus, management has determined that as the service potential of the Group's non-current assets has not increased owing to the same plant and machineries being in use in generating future cash flows, no reversal of impairment loss recognised in prior periods was recognised on the carrying values of the Group's non-current assets during the year ended 31 October 2014 in accordance with IAS 36.

## 16. LAND USE RIGHTS

| | Group RMB'000 |
|---|---|
| **Cost:** | |
| As at 1 November 2013, 31 October 2014, 1 November 2014 and 31 October 2015 | 115,668 |
| **Accumulated amortisation and impairment losses:** | |
| As at 1 November 2013 | 77,803 |
| Amortisation charge for the year | 1,029 |
| As at 31 October 2014 and 1 November 2014 | 78,832 |
| Amortisation charge for the year | 1,189 |
| Reversal of impairment losses recognised in profit or loss | (15,787) |
| As at 31 October 2015 | 64,234 |
| **Net book value:** | |
| **As at 31 October 2015** | **51,434** |
| As at 31 October 2014 | 36,836 |

The surplus arising from land use rights during year ended 31 October 2015 was mainly due to the following factors; (i) appreciation in value in the prevailing land lease market in the People's Republic of China; (ii) the change in basis of the recoverable amount to FVLCD as at 31 October 2015 from VIU as at 31 October 2014 for impairment assessment due to the use of the higher of FVLCD and VIU. This resulted in the surplus and hence reversal of impairment loss.

## 17. INVENTORIES

| | Group | |
|---|---|---|
| | **2015** | 2014 |
| | **RMB'000** | RMB'000 |
| Raw materials (at net realisable value) | **9,455** | 22,154 |
| Finished goods (at net realisable value) | **6,246** | 6,371 |
| | **15,699** | 28,525 |

As at 31 October 2015, inventories of approximately RMB17.56 million (2014: Nil) were written down to net realisable value, which resulted in a loss of approximately RMB1,861,000 (2014: Nil).

## 18. ACCOUNTS RECEIVABLE

| | Group | |
|---|---|---|
| | **2015** | 2014 |
| | **RMB'000** | RMB'000 |
| Accounts receivable | **30,744** | 101,232 |

Accounts receivable has credit terms of between 30 to 120 days.

The movement in the allowance for impairment in respect of accounts receivable during the year was as follows:

| | Group | |
|---|---|---|
| | **2015** | 2014 |
| | **RMB'000** | RMB'000 |
| As at 1 November | **–** | 91,580 |
| Written off during the year | **–** | (91,580) |
| As at 31 October | **–** | – |

The ageing analysis of accounts receivable is as follows:

| | Group | |
|---|---|---|
| | **2015** | 2014 |
| | **RMB'000** | RMB'000 |
| No impaired | | |
| – Not past due | **30,744** | 101,232 |
| – Past due 0 – 30 days | **–** | – |
| | **30,744** | 101,232 |

## 18. ACCOUNTS RECEIVABLE (CONTINUED)

Accounts receivable neither past due nor impaired related to customers which are creditworthy counterparties.

As at 31 October 2015 and 2014, all accounts receivable were denominated in RMB. Details of credit risk are set out in Note 8.

## 19. OTHER RECEIVABLES

| | Group | |
|---|---|---|
| | **2015** | 2014 |
| | **RMB'000** | RMB'000 |
| Prepaid expenses | **2,791** | 87 |
| Deposits | **118** | 103 |
| | **2,909** | 190 |

As at 31 October 2015 and 2014, the prepayments and deposits are denominated in RMB.

## 20. CASH AND CASH EQUIVALENTS

| | Group | | Company | |
|---|---|---|---|---|
| | **2015** | 2014 | **2015** | 2014 |
| | **RMB'000** | RMB'000 | **RMB'000** | RMB'000 |
| Cash in banks | **18,611** | 28,574 | **297** | 35 |
| Cash on hand | **118** | 142 | **–** | – |
| | **18,729** | 28,716 | **297** | 35 |

Cash and bank balances are denominated in the following currencies:

| | Group | | Company | |
|---|---|---|---|---|
| | **2015** | 2014 | **2015** | 2014 |
| | **RMB'000** | RMB'000 | **RMB'000** | RMB'000 |
| RMB | **17,280** | 28,344 | **–** | – |
| HKD | **1,095** | 285 | **5** | 8 |
| USD | **65** | 63 | **3** | 3 |
| SGD | **289** | 24 | **289** | 24 |
| | **18,729** | 28,716 | **297** | 35 |

The remittance of cash and cash equivalents denominated in RMB out of the PRC is subject to the foreign exchange control restrictions imposed by the government of the PRC.

As at 31 October 2015, the weighted average effective interest rate on bank balances is approximately 0.32% (2014: 0.35%) per annum.

## 21. SHARE CAPITAL

| | Par value per share US$ | Number of shares | Amount RMB'000 |
|---|---|---|---|
| Authorised: | | | |
| At 1 November 2013, 31 October 2014 and 1 November 2014 | 0.15 | 2,000,000,000 | 2,490,000 |
| Change in par value and number of shares *(Note (a))* | 14.85 | (1,980,000,000) | – |
| **At 31 October 2015** | **15** | **20,000,000** | **2,490,000** |
| Issued and fully paid: | | | |
| At 1 November 2013, 31 October 2014 and 1 November 2014 | 0.15 | 486,129,104 | 598,238 |
| Change in par value and number of shares | 14.85 | (481,267,813) | – |
| Cancellation of fractional shares arising from Share Consolidation *(Note (b))* | – | (335) | (41) |
| **At 31 October 2015** | **15** | **4,860,956** | **598,197** |

*Note:*

*(a) On 14 August 2015, the Company completed a share consolidation of every one hundred (100) ordinary shares of par value US$0.15 each in the capital of the Company into one (1) ordinary share of par value US$15.00.*

*After disregarding any fractions of Consolidated Shares arising from the Share Consolidation, the issued share capital of the Company comprises 4,860,956 Consolidated Shares of par value US$15.00 each following the Share Consolidation.*

*(b) There were in number of 335 fractions shares arising from Share Consolidation.*

## 22. RESERVES

| | Group | | Company | |
|---|---|---|---|---|
| | **2015 RMB'000** | 2014 RMB'000 | **2015 RMB'000** | 2014 RMB'000 |
| Share premium | **304,361** | 304,382 | **304,361** | 304,382 |
| Share redemption reserve | **62** | – | **62** | – |
| Foreign currency translation reserve | **3,482** | 3,461 | **–** | – |
| Statutory reserve | **86,527** | 86,527 | **–** | – |
| Other reserve | **36,630** | 36,630 | **36,630** | 36,630 |
| Capital reserve | **–** | – | **99,175** | 99,175 |
| Accumulated losses | **(763,795)** | (581,515) | **(773,993)** | (739,952) |
| | **(332,733)** | (150,515) | **(333,765)** | (299,765) |

### SHARE PREMIUM – GROUP AND COMPANY

The share premium may be distributed in the form of fully paid bonus shares.

### SHARE REDEMPTION RESERVE

Share redemption reserve represents the nominal value of the Shares of the Company which was transferred from the Company's retained earnings upon repurchase and cancellation of Shares by the Company.

### FOREIGN CURRENCY TRANSLATION RESERVE – GROUP

The foreign currency translation reserve comprises foreign exchange differences arising from the translation of the financial statements of Group entities whose functional currencies are different from the functional currency of the Company.

### STATUTORY RESERVE – GROUP

In accordance with the relevant PRC regulations, Rui Xing and Yuntong are required to appropriate not less than 10% of their profits after tax to the statutory reserve, until the statutory reserve reaches 50% of their respective registered capitals. The transfer to the statutory reserve must be made before the distribution of dividends to shareholders. The statutory reserve can only be used to set off against accumulated losses or to increase the registered capitals of the subsidiaries, subject to approval from the local authorities.

### OTHER RESERVE – GROUP AND COMPANY

Other reserve comprises remuneration shares issued in prior years for the cumulative value of services received from an employee and may be distributable to shareholders.

### CAPITAL RESERVE – COMPANY

The capital reserve of the Company represents the excess of the fair value of the net assets of the subsidiaries acquired pursuant to a restructuring exercise in 2004 over the nominal value of the Company's shares issued in exchange thereof and may not be distributable to shareholders until realised.

## 23. ACCOUNTS PAYABLE

Accounts payable has credit terms of 180 days.

An ageing analysis of accounts payable as at the end of the reporting period, based on the invoice date, is as follows:

| | Group | |
|---|---|---|
| | **2015 RMB$'000** | 2014 RMB$'000 |
| 0 – 30 days | **1,750** | – |
| 31 – 60 days | **–** | – |
| 61 – 120 days | **–** | – |
| Over 120 days | **–** | – |
| | **1,750** | – |

## 24. ACCRUALS AND OTHER PAYABLES

| | Group | | Company | |
|---|---|---|---|---|
| | **2015 RMB'000** | 2014 RMB'000 | **2015 RMB'000** | 2014 RMB'000 |
| Accrued operating expenses | **1,273** | 4,541 | **150** | 203 |
| Accrued staff and related costs | **1,350** | 1,338 | **13** | 14 |
| Deposit received | **5,036** | – | **–** | – |
| Payable to fixed assets vendors *(Note)* | **2,063** | 2,063 | **–** | – |
| Other payables | **285** | 641 | **–** | – |
| | **10,007** | 8,583 | **163** | 217 |

*Note:*

*The amount pertains to renovation work for office building of Rui Xing. The Group has no scheduled payments according to the terms of contract. Repayments are upon the contractor's request. As the renovation works for the office building is still in progress, the Group is not required to settle the outstanding amounts as at the end of the reporting period.*

## 25. OPERATING LEASE ARRANGEMENTS

The Group leases certain of its office premises under operating lease arrangements. The leases typically run for a period of two years, with an option to renew the lease after that date.

Future minimum lease payments payable under non-cancellable operating leases are as follows:

| | Group | |
|---|---|---|
| | **2015** | 2014 |
| | **RMB$'000** | RMB$'000 |
| Within one year | **215** | 413 |
| Between one and five years | **–** | 207 |
| | **215** | 620 |

## 26. DIRECTORS' REMUNERATION

The emoluments paid or payable to each of the directors during the years ended 31 October 2015 and 2014 were as follows:

**Year ended 31 October 2015**

| | Directors' fee RMB'000 | Salaries RMB'000 | Contributions to defined contributions plans RMB'000 | Total RMB'000 |
|---|---|---|---|---|
| **Executive directors:** | | | | |
| Mr. Zeng Hanming *(Note)* | **–** | **969** | **7** | **976** |
| Mr. Li Weihua *(appointed on 15 March 2014)* | **–** | **55** | **12** | **67** |
| **Independent non-executive directors:** | | | | |
| Prof. Du Jinmin | **55** | **–** | **–** | **55** |
| Prof. Ling Chung Yee Roy | **221** | **–** | **–** | **221** |
| Mr. Chng Hee Hok | **257** | **–** | **–** | **257** |
| | **533** | **1,024** | **19** | **1,576** |

## 26. DIRECTORS' REMUNERATION (CONTINUED)

Year ended 31 October 2014

| | Directors' fee RMB'000 | Salaries RMB'000 | Contributions to defined contributions plans RMB'000 | Total RMB'000 |
|---|---|---|---|---|
| **Executive directors:** | | | | |
| Mr. Zeng Hanming *(Note)* | – | 970 | 6 | 976 |
| Mr. Li Weihua *(appointed on 15 March 2014)* | – | 38 | – | 38 |
| Mr. Wong Tung Leung *(resigned on 1 March 2014)* | – | 174 | 4 | 178 |
| **Independent non-executive directors:** | | | | |
| Prof. Du Jinmin | 55 | – | – | 55 |
| Prof. Ling Chung Yee Roy | 235 | – | – | 235 |
| Mr. Chng Hee Hok | 275 | – | – | 275 |
| | 565 | 1,182 | 10 | 1,757 |

*Note:*

*Mr. Zeng Hanming is also the Chairman and Chief Executive Officer of the Group during the years ended 31 October 2015 and 2014.*

## 27. MATERIAL RELATED PARTIES TRANSACTIONS

### (A) KEY MANAGEMENT PERSONNEL COMPENSATION

| | Group | |
|---|---|---|
| | **2015 RMB'000** | 2014 RMB'000 |
| Directors' fee | **533** | 565 |
| Salaries, bonuses and other costs | **1,862** | 1,944 |
| | **2,395** | 2,509 |

### (B) SIGNIFICANT RELATED PARTY TRANSACTIONS

Other than those disclosed elsewhere in the consolidated financial statements, the following transactions were carried out with related parties in the normal course of business on an arm's length basis:

| | Company | |
|---|---|---|
| | **2015 RMB'000** | 2014 RMB'000 |
| Payments made on behalf of subsidiaries | **564** | 438 |
| Payments made by subsidiaries | **921** | 612 |
| Expenses recharged by subsidiaries | **2,328** | 1,960 |

## 28. DIVIDEND

No dividend was paid or proposed for years ended 31 October 2015 and 2014, nor has any dividend been proposed subsequent to year end.

## 29. CAPITAL MANAGEMENT

The Group's and the Company's primary objectives when managing capital are to safeguard the Group's ability to continue as a going concern while maximizing shareholder value through the optimisation of debt and equity balance.

The Group and the Company manage the capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust the capital structure, the Group and the Company may adjust dividend payments, issue shares, issue convertible notes, or obtain or repay bank borrowings. The Group and the Company currently do not adopt any formal dividend policy.

The Group and the Company use equity as disclosed in the statements of financial position of the Group and the Company as its capital. There has been no change in the Group's and the Company's approach to capital management during the year.

The Company and its subsidiaries are not subject to externally imposed capital requirements.

## 30. CONTINGENT LIABILITIES

The Group and the Company had no contingent liabilities as at 31 October 2015. (2014: Nil)

## 31. EVENT AFTER THE REPORTING PERIOD

The production of the operating subsidiary namely Jieyang City Yuntong Plastic Packaging Co. Limited has ceased operation since November 2015 due to production performance issues. The Group may permanently close down the operation of the production line as mentioned above under the following consideration:

(i) adverse change in the market demand;

(ii) deteriorating operating performance of the aged machineries caused prolonged gross loss with the sale of its products with quality issues, whilst it is no longer cost effective to conduct further repair works. This lead to the conclusion that the manufacturing operation of the production line is not economically viable; and

(iii) one of the land use rights of Yuntong, which occupies approximately two-third of the total site area of Yuntong, will expire on 7 September 2016. As a significant portion of the production line no. 3 at Yuntong comprising of machineries, plants, buildings and structures, is erected and installed on the subject site, the expiration is expected to force termination of the existing operation. Disassembling, removing and restoring the production line no. 3 at Yuntong to the Group's remaining factory site area to operate involve significant cost and exert uncertainty on production performance.

# Statistics of Shareholdings

As at 15 January 2016

| | |
|---|---|
| Authorised Capital | USD300,000,000 |
| Issued Share Capital | USD72,914,340 |
| No. of issued and fully paid up shares | 4,860,956 |
| Class of shares | Ordinary shares of USD15.0 each |
| Voting Rights | One vote per share |

There are no treasury shares held in the issued share capital of the Company.

## DISTRIBUTION OF SHAREHOLDINGS

| Size of Shareholdings | No. of Shareholders | % | No. of Shares | % |
|---|---|---|---|---|
| 1 – 99 | 863 | 31.20 | 34,429 | 0.71 |
| 100 – 1,000 | 1,650 | 59.65 | 443,957 | 9.13 |
| 1,001 – 10,000 | 224 | 8.10 | 640,825 | 13.18 |
| 10,001 – 1,000,000 | 28 | 1.01 | 1,961,491 | 40.35 |
| 1,000,001 AND ABOVE | 1 | 0.04 | 1,780,254 | 36.63 |
| TOTAL | 2,766 | 100.00 | 4,860,956 | 100.00 |

## TWENTY LARGEST SHAREHOLDERS

| No. | Name | No. of Shares | % |
|---|---|---|---|
| 1 | CHONG YUEN | 1,780,254 | 36.62 |
| 2 | WU HUILING | 207,916 | 4.28 |
| 3 | LI KIM YU | 154,824 | 3.19 |
| 4 | ZHUANG SHAOWEN | 154,824 | 3.19 |
| 5 | DBS NOMINEES (PRIVATE) LIMITED | 144,719 | 2.98 |
| 6 | ZENG HANMING | 142,689 | 2.94 |
| 7 | HUANG WEIWEN | 123,866 | 2.55 |
| 8 | DBS VICKERS SECURITIES (SINGAPORE) PTE LTD | 111,415 | 2.29 |
| 9 | HUANG XIAOHUI | 103,531 | 2.13 |
| 10 | ZHANG LINGYAN | 103,531 | 2.13 |
| 11 | OCBC SECURITIES PRIVATE LIMITED | 83,671 | 1.72 |
| 12 | RHB SECURITIES SINGAPORE PTE. LTD. | 80,200 | 1.65 |
| 13 | UOB KAY HIAN PRIVATE LIMITED | 74,850 | 1.54 |
| 14 | ZHUANG SHAOCHUN | 66,245 | 1.36 |
| 15 | PHILLIP SECURITIES PTE LTD | 65,085 | 1.34 |
| 16 | HSBC (SINGAPORE) NOMINEES PTE LTD | 42,828 | 0.88 |
| 17 | PU WEIDONG | 38,969 | 0.80 |
| 18 | RAFFLES NOMINEES (PTE) LIMITED | 37,651 | 0.77 |
| 19 | TEO THONG SOON | 33,145 | 0.68 |
| 20 | MAYBANK KIM ENG SECURITIES PTE. LTD. | 33,013 | 0.68 |
| | TOTAL | 3,583,226 | 73.72 |

45.88% of the Company's shares are held in the hands of public. Accordingly, the Company has complied with Rule 723 of the Listing Manual of SGX-ST.

# Statistics of Shareholdings

As at 15 January 2016

## SUBSTANTIAL SHAREHOLDERS AS AT 15 JANUARY 2016

| Name of Shareholder | Direct | Deemed Interest |
|---|---|---|
| 1) Chong Yuen | 1,780,254 | 154,824 |
| 2) Zhuang Shaowen | 154,824 | 123,866 |
| 3) Li Kim Yu | 154,824 | 1,780,254 |
| 4) Huang Weiwen | 123,866 | 154,824 |

*Notes:*

*1) Mr Chong Yuen's deemed interest is derived from 154,824 shares held in the name of his spouse.*

*2) Ms Zhuang Shaowen's deemed interest is derived from 123,866 shares held in the name of her spouse.*

*3) Ms Li Kim Yu is the wife of Mr Chong Yuen.*

*4) Mr Huang Weiwen is the husband of Ms Zhuang Shaowen.*

# Notice of Annual General Meeting

NOTICE IS HEREBY GIVEN that the Annual General Meeting ("AGM") of China Flexible Packaging Holdings Limited ("the Company") will be held at Re!Joice1 Ballroom, Ground Floor of Hotel Re, 175A Chin Swee Road, Singapore 169879 on Tuesday, 23 February 2016 at 9.00 a.m.

## AS ORDINARY BUSINESS

1. To receive and adopt the Directors' Report and the Audited Financial Statements of the Company for the year ended 31 October 2015 together with the Auditors' Report thereon. **(Resolution 1)**

2. To re-elect the following Directors of the Company retiring pursuant to Bye-Law 86(1) of the Bye-Laws of the Company:

   a. Mr Zeng Hanming **(Resolution 2)**
   b. Mr Chng Hee Kok **(Resolution 3)**
   [See Explanatory Note (i)]

3. To approve the payment of Directors' fees of RMB553,400 for the year ended 31 October 2015 (previous year: RMB564,600). **(Resolution 4)**

4. To re-appoint Messrs Foo Kon Tan LLP and HLB Hodgson Impey Cheng Limited as joint Auditors of the Company and to authorise the Directors of the Company to fix their remuneration. **(Resolution 5)**

5. To transact any other ordinary business which may properly be transacted at an Annual General Meeting.

## AS SPECIAL BUSINESS

To consider and if thought fit, to pass the following resolutions as Ordinary Resolutions, with or without any modifications:

6. **Authority to issue shares**
   That pursuant to the Bye-Laws and Rule 806 of the Listing Manual of the Singapore Exchange Securities Trading Limited, the Directors of the Company be authorised and empowered to:

   (a) (i) issue shares in the Company ("shares") whether by way of rights or otherwise; and/or

   (ii) make or grant offers, agreements or options (collectively, "Instruments") that might or would require shares to be issued, including but not limited to the creation and issue of (as well as adjustments to) options, warrants, debentures or other instruments convertible into shares,

   at any time and upon such terms and conditions and for such purposes and to such persons as the Directors of the Company may in their absolute discretion deem fit; and

   (b) (notwithstanding the authority conferred by this Resolution may have ceased to be in force) issue shares in pursuance of any Instruments made or granted by the Directors of the Company while this Resolution was in force,

   provided that:

   (1) the aggregate number of shares (including shares to be issued in pursuance of the Instruments, made or granted pursuant to this Resolution) to be issued pursuant to this Resolution shall not exceed fifty per centum (50%) of the total number of issued shares in the capital of the Company (as calculated in accordance with sub-paragraph (2) below), of which the aggregate number of shares to be issued other than on a pro rata basis to existing shareholders of the Company shall not exceed twenty per centum (20%) of the total number of issued shares in the capital of the Company (as calculated in accordance with sub-paragraph (2) below);

(2) (subject to such calculation as may be prescribed by the Singapore Exchange Securities Trading Limited) for the purpose of determining the aggregate number of shares and Instruments that may be issued under sub-paragraph (1) above, the percentage of issued shares and Instruments shall be based on the total number of issued shares in the capital of the Company at the time of the passing of this Resolution, after adjusting for:

(a) new shares arising from the conversion or exercise of the Instruments or any convertible securities;

(b) new shares arising from exercising share options or vesting of share awards which are outstanding or subsisting at the time of the passing of this Resolution; and

(c) any subsequent consolidation or subdivision of shares;

(3) in exercising the authority conferred by this Resolution, the Company shall comply with the provisions of the Listing Manual of the Singapore Exchange Securities Trading Limited for the time being in force (unless such compliance has been waived by the Singapore Exchange Securities Trading Limited) and the Bye-Laws of the Company; and

(4) unless revoked or varied by the Company in a general meeting, such authority shall continue in force until the conclusion of the next Annual General Meeting of the Company or the date by which the next Annual General Meeting of the Company is required by law to be held, whichever is earlier.
[See Explanatory Note (ii)] **(Resolution 6)**

7. **Renewal of Share Purchase Mandate**
That the Directors of the Company be and are hereby authorised to make purchases or otherwise acquire issued shares in the capital of the Company from time to time (whether by way of market purchases or off-market purchases on an equal access scheme) of up to ten per centum (10%) of the total number of issued shares in the capital of the Company (as ascertained as at the date of Annual General Meeting of the Company) at the price of up to but not exceeding the Maximum Price as defined in the Company's Circular dated 11 February 2006 and in accordance with the Guidelines on Share Purchase set out in Appendix I of the said Circular and this mandate shall, unless revoked or varied by the Company in general meeting, continue in force until the conclusion of the next Annual General Meeting of the Company or the date by which the next Annual General Meeting of the Company is required by law to be held, whichever is earlier.
[See Explanatory Note (iii) & Summary Sheet] **(Resolution 7)**

8. **Authority to issue shares under the China Flexible Packaging Holdings Limited Scrip Dividend Scheme**
That pursuant to Rule 806 of the Listing Manual of the Singapore Exchange Securities Trading Limited, the Directors of the Company be authorised and empowered to issue such number of shares in the Company as may be required to be issued pursuant to the China Flexible Packaging Holdings Limited Scrip Dividend Scheme from time to time in accordance with the "Terms and Conditions of the Scrip Dividend Scheme" set out in pages 11 to 16 of the Circular to Shareholders dated 5 February 2007 and that such authority shall, unless revoked or varied by the Company in a general meeting, continue in force until the conclusion of the next Annual General Meeting of the Company or the date by which the next Annual General Meeting of the Company is required by law to be held, whichever is earlier.
[See Explanatory Note (iv)] **(Resolution 8)**

By Order of the Board

**Kit Chan**
**Kevin Cho**
Joint Company Secretaries
Singapore, 29 January 2016

# Notice of Annual General Meeting

## EXPLANATORY NOTES:

(i) Mr Chng Hee Kok will, upon re-election as a Director of the Company, remain as a Lead Independent Director, Chairman of Audit Committee and members of the Nominating and Remuneration Committees respectively and will be considered independent.

Mr Zeng Hanming will, upon re-election as a Director of the Company, remain as member of Nominating Committee and will be considered non-independent.

(ii) The Ordinary Resolution 6 in item 6 above, if passed, will empower the Directors of the Company, effective until the conclusion of the next Annual General Meeting of the Company, or the date by which the next Annual General Meeting of the Company is required by law to be held or such authority is varied or revoked by the Company in a general meeting, whichever is the earlier, to issue shares, make or grant instruments convertible into shares and to issue shares pursuant to such instruments, up to a number not exceeding, in total, 50% of the total number of issued shares in the capital of the Company, of which up to 20% may be issued other than on a pro-rata basis to shareholders.

For determining the aggregate number of shares that may be issued, the total number of issued shares will be calculated based on the total number of issued shares in the capital of the Company at the time this Ordinary Resolution is passed after adjusting for new shares arising from the conversion or exercise of any convertible securities or share options or vesting of share awards which are outstanding or subsisting at the time when this Ordinary Resolution is passed and any subsequent consolidation or subdivision of shares.

(iii) The Ordinary Resolution 7 in item 7 above, if passed, will empower the Directors of the Company, effective until the conclusion of the next Annual General Meeting of the Company or the date by which the next Annual General Meeting of the Company is required by law to be held, whichever is the earlier, to repurchase ordinary shares of the Company by way of market purchases or off-market purchases of up to ten per centum (10%) of the total number of issued shares in the capital of the Company at the Maximum Price as defined in the Appendix I to the Circular. The Company did not purchase any ordinary shares of the Company during the financial year ended 31 October 2015.

(iv) The Ordinary Resolution 8 in item 8 above, if passed, will empower the Directors of the Company, effective until the conclusion of the next Annual General Meeting of the Company, or the date by which the next Annual General Meeting of the Company is required by law to be held or when varied or revoked by the Company in a general meeting, whichever is the earlier, to issue shares in the Company from time to time pursuant to the China Flexible Packaging Holdings Limited Scrip Dividend Scheme.

*Notes:*

1. *A Member entitled to attend and vote at the Annual General Meeting (the "Meeting") is entitled to appoint not more than 2 proxies to attend and vote in his/her stead. A proxy need not be a Member of the Company.*

2. *If a member being a Depositor whose name appears in the Depository Register (as defined in Section 81SF of the Securities and Futures Act of Singapore) wishes to attend and vote at the Annual General Meeting (the "Meeting"), then he/she/it should complete the Proxy Form and deposit the duly completed Proxy Form at the office of the Singapore Share Transfer Agent, Boardroom Corporate & Advisory Services Pte. Ltd. at 50 Raffles Place #32-01, Singapore Land Tower, Singapore 048623 at least forty-eight (48) hours before the time of the Meeting.*

3. ***Personal data privacy:***
*By submitting an instrument appointing a proxy(ies) and/or representative(s) to attend, speak and vote at the AGM and/or any adjournment thereof, a member of the Company (i) consents to the collection, use and disclosure of the member's personal data by the Company (or its agents) for the purpose of the processing and administration by the Company (or its agents) of proxies and representatives appointed for the AGM (including any adjournment thereof) and the preparation and compilation of the attendance lists, minutes and other documents relating to the AGM (including any adjournment thereof), and in order for the Company (or its agents) to comply with any applicable laws, listing rules, regulations and/or guidelines (collectively, the "Purposes"), (ii) warrants that where the member discloses the personal data of the member's proxy(ies) and/or representative(s) to the Company (or its agents), the member has obtained the prior consent of such proxy(ies) and/or representative(s) for the collection, use and disclosure by the Company (or its agents) of the personal data of such proxy(ies) and/or representative(s) for the Purposes, and (iii) agrees that the member will indemnify the Company in respect of any penalties, liabilities, claims, demands, losses and damages as a result of the member's breach of warranty.*

689 Xiguan Road, Jieyang City, Guangdong, 522000 PRC
www.cnflexpack.com

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