

CHINA FLEXIBLE PACKAGING HOLDINGS LIMITED
(Incorporated in Bermuda)

EMPHASIS OF MATTER BY AUDITORS ON FINANCIAL STATEMENTS

Pursuant to Rule 704(5) of the Listing Manual of the Singapore Exchange Securities Trading Limited, the Board of Directors of China Flexible Packaging Holdings Limited (“the Company”) wishes to inform that the independent joint external auditors of the Company, HLB Hodgson Impey Cheng Limited and Foo Kon Tan LLP (the “Joint Auditors”) have in their Independent Joint Auditors’ Report included an Emphasis of Matter on the Company’s financial statements for the financial year ended 31 October 2016 (the “Financial Statements”). The opinion of the Joint Auditors is not qualified in respect of this matter.

Please refer to the copy of the Independent Joint Auditors’ Report, together with an extract of the relevant note to the Financial Statements, attached for information.

By Order of the Board

Zeng Hanming
Chairman of the Board
24 January 2017

Extract of the Notes to Financial Statements for the Financial Year Ended 31 October 2016 of China Flexible Packaging Holdings Limited

Note 2 to the Financial Statements: Going Concern

The Group incurred net losses of approximately RMB125.3 million (2015: RMB182.3 million) and generated negative cash flow from operating activities of the Group of approximately RMB73.5 million (2015: RMB10.0 million) for the financial year ended 31 October 2016. As at 31 October 2016, the Group has an outstanding bank loan of RMB40.0 million and loan of approximately RMB30.0 million by director, Mr Zeng Hanming, both of which are due within 12 months after year end and the Group had net current liabilities of RMB41.0 million at that date. As at 31 October 2016, the Group only has cash balances of RMB14.7 million.

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) Subsequent to year end, the Company completed the Rights cum Warrants Issue on 7 December 2016 and the Company had raised net proceeds of approximately S\$6.1 million or RMB29.9 million. Further to the issuance of 4,326,898 Warrants, the Group could also potentially raise an additional of approximately S\$4.5 million or RMB22.3 million in the event that all the Warrants are exercised;
- (ii) the Company has prepared a cash flow forecast for the next 12 months after year end and is of the view that sufficient working capital will be available to the Group taking into account the proceeds from the above Rights cum Warrants Issue and Mr Zeng's confirmation that he will not demand immediate repayment of his loan (see point iii below);
- (iii) the Chairman of the Board, Mr Zeng Hanming has agreed not to demand immediate repayment of his advance of approximately RMB30.0 million for the next 12 months after year end until such time when the Company has sufficient financial resources to do so. The Group also believes that external debt financing options are available;
- (iv) the Group has closed down production from the less effective production line as an immediate measure to conserve cash balance; and
- (v) the Group continues to implement measures to improve the Group's liquidity condition, including but not limited to, shortening receivable collection period, lowering inventory level and tightening cost controls over various selling and administrative expenses.

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.

Note 7 to the Financial Statements: Impairment of Property, Plant and Equipment and Land Use Rights

FY2016

No impairment loss or reversal was recognised in FY 2016 in relation to the Group's non-current assets. The details of the rationale are described below.

For the purpose of the Circular in relation to the Rights cum Warrants Issue exercise and impairment testing for the year end date as required by the International Accounting Standards No. 36 ("IAS 36"), the Company commissioned Peak Vision Appraisals Limited ("Peak Vision"), an independent valuer, which is a Registered Professional Surveyor and Registered Business Valuer, to assess the fair value less costs of disposal of the Group's non-current assets as at the period ended 31 July 2016, and further review for the year ended 31 October 2016 using the same basis and methodology. Peak Vision was of the opinion that there was no material difference between the fair value less costs of disposal of the Group's non-current assets as at the above two valuation dates.

There was a surplus in the fair value less cost of disposal of approximately RMB15.0 million to the carrying value of the Group's non-current assets as at the year ended 31 October 2016. The surplus in the Group's non-current assets comprising of (i) approximately RMB14.3 million arising from property, plant and equipment and (ii) approximately RMB0.7 million arising from land use rights.

The value of the impairment reversal ascribes to fair value less costs of disposal ("FVLCD") valuation basis. FVLCD amount was determined as the recoverable amount of the Group's non-current assets including property, plant and equipment and land use rights.

The surplus of the recoverable amount to the carrying value represented that the impairment loss recognised in prior years may have decreased and hence an impairment reversal may needed. The calculation of impairment reversal is as follows:

	As at 31 October 2016 RMB'000
Carrying amount of:	
Property, plant and equipment	131,171
Land use rights	50,019
	181,190
FVLCD of:	
Property, plant and equipment	145,473
Land use rights	50,722
	196,195
Surplus of FVLCD over the carrying amount of:	
Property, plant and equipment	14,302
Land use rights	703
	15,005

Notwithstanding the surplus, management considered number of factors including the fact that the surplus was insignificant to the carrying amount of the non-current assets, as well as the performance potential of the Group's non-current assets has not increased from the same plant and machineries being in use. Also in accordance with IAS 36, as there had been no change in the estimates used in determining the FVLCD, the management therefore determined that no reversal of impairment had to be made on the carrying values of the Group's non-current assets during the year ended 31 October 2016.

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.

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 appraised 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.

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.

MEASUREMENT OF FAIR VALUES

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 2016		
	Level 2 RMB'000	Level 3 RMB'000	Total RMB'000
Land use rights	50,720	2	50,722
Leasehold buildings	–	94,118	94,118
Plant and machinery	–	51,246	51,246
Others	–	109	109
	50,720	145,475	196,195

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

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 meter. The average price per square meter is RMB391.70 (2015: RMB396.63). If the price per square meter of the valuation increase/decrease by 5% from the independent valuer, the valuation of land use right will increase/decrease by approximately RMB2.54 million (2015: 2.57 million).

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 by approximately RMB4.71 million (2015: RMB5.05 million), and vice versa.

The fair value of the plant and machinery was determined based on the reproduction/replacement cost approach which estimated based on current market cost of new asset having the nearest equivalent utility as the asset being appraised and current cost of reproducing a new replica of an asset with the same or closely similar materials. Physical deterioration is the loss in value of an assets from wear and tear of an asset in operation and exposure to various elements. 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. The most significant input into this valuation is the depreciation factor, an increase/decrease of the depreciation factor by 5% will increase the valuation of the plant and machinery will increase/decrease by approximately RMB3.35 million (2015: RMB2.94 million).

In financial year 2015, 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 by approximately RMB49,700, and vice versa.

Independent Joint Auditors' Report

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

REPORT ON THE CONSOLIDATED FINANCIAL STATEMENTS

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 38 to 88, which comprise the statements of financial position of the Group and the Company as at 31 October 2016, 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 financial position of the Group and the Company as at 31 October 2016 and the financial performance, changes in equity 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 RMB125.3 million (2015: RMB182.3 million) and generated negative cash flow from operating activities of the Group of approximately RMB73.5 million (2015: RMB10.0 million) for the financial year ended 31 October 2016. As at 31 October 2016, the Group has an outstanding bank loan of RMB40.0 million and loan of approximately RMB30.0 million by director, Mr Zeng Hanming, both of which are due within 12 months after year end and the Group had net current liabilities of RMB41.0 million at that date. As at 31 October 2016, the Group only has cash balances of approximately RMB14.7 million. These conditions indicate the existence of a material uncertainty that may cast significant doubt about the Company's and the Group's ability to continue as going concerns.

The Company's directors are of the view that the going concern assumption is appropriate and 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) Subsequent to year end, the Company completed the Rights cum Warrants Issue on 7 December 2016 and the Company had raised net proceeds of approximately S\$6.1 million or RMB29.9 million. Further to the issuance of 4,326,898 Warrants, the Group could also potentially raise an additional of approximately S\$4.5 million or RMB22.3 million in the event that all the Warrants are exercised;
- (ii) the Company has prepared a cash flow forecast for the next 12 months after year end and is of the view that sufficient working capital will be available to the Group taking into account the proceeds from the above Rights cum Warrants Issue and Mr Zeng's confirmation that he will not demand immediate repayment of his loan (see point iii below);
- (iii) the Chairman of the Board, Mr Zeng Hanming has agreed not to demand immediate repayment of his advance of approximately RMB30.0 million for the next 12 months after year end until such time when the Company has sufficient financial resources to do so. The Group also believes that external debt financing options are available;
- (iv) the Group has closed down production from the less effective production line as an immediate measure to conserve cash balance; and
- (v) the Group continues to implement measures to improve the Group's liquidity condition, including but not limited to, shortening receivable collection period, lowering inventory level and tightening cost controls over various selling and administrative expenses.

Our opinion is not qualified in respect of this matter.

(2) SIGNIFICANT JUDGMENT ON IMPAIRMENT ASSESSMENT ESTIMATES AND ASSUMPTIONS

During the current financial year ended 31 October 2016, the Company has assessed and impaired an amount of RMB107.2 million on the carrying amount of its investment in its subsidiaries. As at 31 October 2016, the Group has assessed but did not reverse the impairment losses of its property, plant and equipment and land use rights notwithstanding that the recoverable amount was higher than the carrying amount of such assets as at 31 October 2016. The above impairment assessments were made based on the recoverable amounts and the significant estimates and assumptions as disclosed in Note 7. The recoverable amount is dependent on the assumptions made; 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
24 January 2017

Foo Kon Tan LLP
Public Accountants and
Chartered Accountants

Singapore
24 January 2017