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 2015 (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
22 January 2016

Extract of the Notes to Financial Statements for the Financial Year Ended 31 October 2015 of China Flexible Packaging Holdings Limited

Note 2 to the Financial Statements: 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 assets of approximately RMB56,324,000 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.

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 the 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 has 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 has 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 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	-	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 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 RMB 5.20 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.

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.

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.

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.

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 these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, 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

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.

Significant judgment on impairment assessment estimates and assumptions

Management has assessed and has impaired an amount of approximately 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