

China Packaging Holdings Development Limited

中華包裝控股發展有限公司

(Incorporated in the Cayman Islands with limited liability)

Stock Code:1439



PACKAGE
PACKAGE

Interim Report **2015**

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CORPORATE INFORMATION

Executive Directors

Mr. Chen Wei Wei (*Chairman*)
Mr. Sun Shao Hua
Ms. Hu Li Yu

Independent Non-executive Directors

Mr. Liu Da Jin
Mr. Ma Yiu Ho, Peter
Mr. Wu Ping

Audit Committee

Mr. Ma Yiu Ho, Peter (*Chairman*)
Mr. Liu Da Jin
Mr. Wu Ping

Remuneration Committee

Mr. Liu Da Jin (*Chairman*)
Mr. Wu Ping
Ms. Hu Li Yu

Nomination Committee

Mr. Chen Wei Wei (*Chairman*)
Mr. Liu Da Jin
Mr. Wu Ping

Company Secretary

Mr. Hu Chung Ming (FCPA)

Authorised Representatives

Mr. Sun Shao Hua
Mr. Hu Chung Ming

Auditors

HLB Hodgson Impney Cheng Limited
Certified Public Accountants

Compliance Adviser

Oriental Patron Asia Limited

Legal Adviser

TC & Co.,

Registered Office

Cricket Square, Hutchins Drive
P.O. Box 2681
Grand Cayman KY1-1111
Cayman Islands

Headquarters and Principal Place of Business in the PRC

Hong Sheng Industrial Park
Fengxin Industrial Zone
Yichun City, Jiangxi Province
The PRC

Principal Place of Business in Hong Kong

Office 2, 7th Floor
Wah Hing Commercial Building
283 Lockhart Road
Wanchai, Hong Kong

Stock Code

01439

Principal Share Registrar and Transfer Office

Codan Trust Company (Cayman) Limited
Cricket Square, Hutchins Drive
P.O. Box 2681
Grand Cayman KY1-1111
Cayman Islands

Hong Kong Branch Share Registrar and Transfer Office

Tricor Investor Services Limited
Level 22
Hopewell Centre
183 Queen's Road East
Hong Kong

Principal Bankers

China Construction Bank (Fengxin Sub-branch,
the PRC)
No 87, Yingbin Road
Fengxin County, Yichun City
Jiangxi Province, The PRC

Company's Website

www.hs-pack.com

Management Discussion and Analysis

BUSINESS REVIEW

During the period under review, the Group continued to be principally engaged in the manufacturing and sales of paper-based packaging products with operation in Jiangxi Province in the PRC. The Group provides one stop solution which includes designing, manufacturing, and printing of packaging products to its customers which are mostly based in Jiangxi Province. Our products are generally used in packaging of a wide variety of products such as food and beverage, glass and ceramics articles, metal hardware and chemicals products, bamboo articles, etc. Currently, we have extended the application of our stone paper to shopping bags for department stores.

With the satisfactory and steady performance of the 4 new production lines (2 new printing production lines, 1 corrugated paperboard production line and 1 stone paper production line) established in late 2014, the Group's performance has achieved steady growth during the period under review as compared to the corresponding period amidst of the increasing competitive market condition.

FINANCIAL REVIEW

During the period under review, the turnover of the Group was approximately RMB274.6 million (six months ended 30 June 2014: approximately RMB216.1 million), representing an increase of approximately RMB58.5 million or approximately 27.1% as compared to the last corresponding period. The increase in turnover was mainly attributable to the substantial increase in sales volume from approximately 72.1 million square meter to approximately 93.3 million square meter. The commencement of commercial production of our new production lines have enabled us to capture the increasing sales order placed by our existing customers and new customers in the PRC.

Turnover by products

	Six months ended 30 June			
	2015		2014	
	RMB'000	% of Total	RMB'000	% of Total
Flexo-printed cartons	152,448	55.5	120,391	55.7
Offset-printed cartons				
– Traditional paper-based cartons	73,907	26.9	64,942	30.0
– Stone-paper based cartons	48,246	17.6	30,813	14.3
Sub-total	122,153	44.5	95,755	44.3
Total	274,601	100	216,146	100

Flexo-printed cartons

During the period under review, our revenue from sales of flexo-printed cartons was approximately RMB152.4 million (six months ended 30 June 2014: approximately RMB120.4 million), accounted for approximately 55.5% (six months ended 30 June 2014: approximately 55.7%) of our total revenue. The increase in approximately RMB32.0 million or approximately 26.6% was attributable to the increase in sales to existing customers and increase in our customer base which are mainly engaged in the electronic, textile and pharmaceutical business.

Management Discussion and Analysis

Offset-printed cartons

During the period under review, our revenue from sales of offset-printed cartons was approximately RMB122.2 million (six months ended 30 June 2014: approximately RMB95.8 million), accounted for approximately 44.5% (six months ended 30 June 2014: approximately 44.3%) of our total revenue. The increase in approximately RMB26.4 million or approximately 27.6% was mainly because of the increase in sales of traditional paper-based cartons from approximately RMB64.9 million to approximately RMB73.9 million due to our reduction of its selling price to attract more sales. On the other hand, the sales of stone-paper based cartons has also increased significantly from approximately RMB30.8 million to approximately RMB48.2 million due to our introduction of stone-paper based bags to new customers such as department stores.

Turnover by product categories of our customers

	Six months ended 30 June			
	2015		2014	
	RMB'000	% of Total	RMB'000	% of Total
Food and beverages	96,052	35.0	93,841	43.4
Glass and ceramics articles	34,687	12.6	54,534	25.2
Metal hardware and chemical products	25,358	9.2	29,281	13.5
Bamboo articles	19,354	7.1	22,609	10.5
Department stores	25,024	9.1	–	–
Others	74,126	27.0	15,881	7.4
Total	274,601	100	216,146	100

Note: Other products mainly include stationery, energy and electronic products, textile and pharmaceutical products.

The Group's main customers are manufacturers of food and beverages in the PRC. During the period under review, revenue from food and beverages manufacturers was approximately RMB96.1 million (six months ended 30 June 2014: approximately RMB93.8 million), representing approximately 35.0% (six months ended 30 June 2014: approximately 43.4%) of the total turnover. The decrease in proportion of revenue from food and beverages manufacturers was mainly because, during the period under review, the Group has successfully introduced stone-paper based bags to department stores, and also captured more sales orders from the manufacturers of electronic and pharmaceutical products.

Gross profit and gross profit margin

	Six months ended 30 June			
	2015		2014	
	RMB'000	GP margin (%)	RMB'000	GP margin (%)
Flexo-printed cartons	30,906	20.3	25,079	20.8
Offset-printed cartons				
– Traditional paper-based cartons	16,741	22.7	17,036	26.2
– Stone-paper based cartons	16,215	33.6	10,275	33.3
Sub-total	32,956	27.0	27,311	28.5
Total	63,862	23.3	52,390	24.2

Management Discussion and Analysis

During the period under review, the overall gross profit of the Group was approximately RMB63.9 million (six months ended 30 June 2014: approximately RMB52.4 million), representing an increase of approximately 21.9% or approximately RMB11.5 million. However, overall gross profit margin decreased slightly from approximately 24.2% for the last corresponding period to approximately 23.3% during the period under review.

The gross profit from flexo-printed cartons for the period under review was approximately RMB30.9 million, representing a growth of approximately 23.1% as compared to approximately RMB25.1 million for the last corresponding period. The gross profit margin for flexo-printed cartons decreased slightly to approximately 20.3% for the period under review from approximately 20.8% for the last corresponding period mainly due to the increase in production cost.

The gross profit from offset-printed cartons for the period under review was approximately RMB33.0 million, representing a growth of approximately 20.9% as compared to approximately RMB27.3 million for the last corresponding period. The gross profit margin for offset-printed cartons decreased to approximately 27.0% for the period under review from approximately 28.5% for the last corresponding period. The decrease was mainly attributable to the drop in profit margin from traditional paper-based cartons because the Group decreased its average selling price in order to attract more sales.

OTHER REVENUE AND INCOME

During the period under review, other revenue and income of the Group was approximately RMB4.9 million (six months ended 30 June 2014: approximately RMB6.2 million), representing a decrease of approximately 21% or approximately RMB1.3 million. The decrease was mainly attributable to the reduction in tax concession which was provided by the local government in the PRC through partially refund of the enterprise income tax paid by the Group. The reduction in tax concession was because of the decrease in enterprise income tax paid in the PRC resulted from the decrease in the enterprise income tax rate of the Group's PRC subsidiary from 25% (for the corresponding period) to 15% (for the period under review) after the PRC subsidiary being qualified as a High and New Technology Enterprise in the second half of 2014.

SELLING AND DISTRIBUTION EXPENSES

During the period under review, selling and distribution expenses of the Group was approximately RMB14.7 million (six months ended 30 June 2014: approximately RMB9.3 million), representing an increase by approximately 58.1% or approximately RMB5.4 million. The increase was mainly due to the composite effect of (i) an increase in distribution and delivery costs which was resulted from the increase in sales volume and number of customers located in different cities or provinces in the PRC and (ii) an increase in sales commission and salary to sales staff due to the increase in sales activities. With the additional production capacity and launching of new product line (stone paper-based bags) after the commence operation of the new production lines during the period under review, the Group has increased its selling activities in order to attract more sales. Consequently, our selling and distribution expense as a percentage of our total turnover increased to approximately 5.4% for the period under review (approximately 4.3% for the last corresponding period).

ADMINISTRATIVE EXPENSES

During the period under review, administrative expenses of the Group was approximately RMB10.7 million (six months ended 30 June 2014: approximately RMB15.2 million), representing a decrease by approximately 29.6% or approximately RMB4.5 million. The decrease was primarily attributable to the recognition of the listing expenses of approximately RMB7.5 million in the 2014 interim report (nil in the period under review). The reduction in such administrative expenses was partly offset by a surge in the staff cost as a result of the growth of the Group's business.

Management Discussion and Analysis

FINANCE COSTS

During the period under review, finance costs of the Group was approximately RMB1.1 million (six months ended 30 June 2014: approximately RMB1.0 million), representing an increase by approximately 10% or approximately RMB0.1 million. The increase was mainly because of the increase in drawdown of bank borrowings and the issue of Promissory Note and Convertible Bonds.

INCOME TAX EXPENSES

During the period under review, income tax expenses of the Group was approximately RMB6.8 million (six months ended 30 June 2014: approximately RMB11.2 million), representing a decrease by approximately 39.3% or approximately RMB4.4 million. The Group's effectively tax rate was approximately 21.4% for the period under review and 33.9% for the last corresponding period. The decrease was mainly because Hongsheng, a PRC subsidiary, is qualified as a High and New Technology Enterprise and is entitled to enjoy preferential treatment on corporate income tax for three years commencing from 2014. Since the approval was not obtained until August 2014, the decrease was not reflected in the 2014 interim report.

PROFIT FOR THE PERIOD

As a combined result of the factors discussed above, our profit for the period increased from approximately RMB21.9 million for the last corresponding period by approximately RMB3.2 million or approximately 14.6% to approximately RMB25.1 million for the period under review. Our net profit margin decreased slightly from 10.1% for the last corresponding period to 9.2% for the period under review.

LIQUIDITY AND FINANCIAL RESOURCES

During the period under review, the Group maintained in healthy liquidity position with working capital financed by internal resources, bank borrowings, Promissory Note and Convertible Bonds. As at 30 June 2015, the cash and cash equivalents were approximately RMB220.3 million (31 December 2014: approximately RMB92.5 million), mostly denominated in Renminbi and Hong Kong Dollars. The Group's total borrowings which includes bank borrowings, Promissory Note and Convertible Bonds amounted to approximately RMB194.6 million (31 December 2014: approximately RMB11 million). As at 30 June 2015, approximately 59.1% (31 December 2014: 100%) of the total borrowing were denominated in Renminbi and approximately 40.9% (31 December 2014: nil) of the total borrowing were denominated in Hong Kong Dollars. The Group's gearing ratio is calculated as total borrowings, which is the summation of bank borrowings, Promissory Note and Convertible Bonds, divided by total equity. The gearing ratio of the Group as at 30 June 2015 and 31 December 2014 were approximately 62.3% and approximately 4.0% respectively.

On 19 June 2015, the Group issued Promissory Note and Convertible Bonds ("Note and Bonds") with principal amount of HKD80,000,000 and HKD20,000,000 respectively. The Note and Bonds will be repayable in full by 19 June 2016 and shall be extended for a further term of one year, provided that they shall not be extended for more than two years. The Note and Bonds may be redeemed at the option of the Group in whole at any time during the period between the first day of the twelfth month following the date of issue and the last day immediately preceding the maturity date. The Note and Bonds bear a fixed coupon interest rate at 7.5% per annum payable semi-annually, commencing on 19 December 2015.

The Bonds entitle the holder to convert to ordinary shares of the Company at a conversion price of HK\$0.85 per share. Upon the exercise of the conversion rights in full, approximately 23,529,411 shares will be issued, representing approximately 2.86% of the issued share capital of the Company as enlarged by the allotment and issue of the shares on conversion.

Management Discussion and Analysis

The net proceeds from the issue of Note and Bonds was approximately HKD97.5 million. The Company shall use such net proceeds for capital expenditure (including those related to mergers and acquisitions) and financing the general working capital.

INVENTORIES

The Group has implemented a stringent inventories control to reduce the holding risk. As at 30 June 2015, the inventories carried a total worth of approximately RMB18.9 million which was slightly more than the amount of approximately RMB17.9 million as at 31 December 2014. The inventory turnover increased by 2 days to 16 days compared to 14 days as at 31 December 2014.

TRADE RECEIVABLES

As at 30 June 2015, the trade receivables amounted to approximately RMB136.5 million (31 December 2014: approximately RMB105.8 million). The trade receivables turnover days increased by 4 days to 68 days compared to 64 days as at 31 December 2014.

TRADE PAYABLES

As at 30 June 2015, the trade payables amounted to approximately RMB76.2 million (31 December 2014: approximately RMB76.9 million). The trade payables turnover days decreased by 5 days to 56 days compared to 61 days as at 31 December 2014.

OUTLOOK

Despite concerns over the uncertainty in global financial markets and the PRC internal challenges which may exert impacts on the economy of China, the Group expects China's economic development will be steady in the second half of 2015. We believe that the Chinese government will continue to implement measures to stimulate economic development and promote domestic consumption.

The Group will strive to develop new products with high gross profits and high demand, while continuing to diversify the products of the Group. In particular, we will continue to regard stone-paper based material as the key products of the Group and continue to invest substantial resources to capture a larger market share. By utilizing many years of experience and well-established scale of advantages, it is expected to further drive the growth of finished products, increase the proportion of sales, and contribute more profits to the Group.

The Group will continue to strengthen its existing business and actively exploring for new investment opportunities through potential acquisitions and joint ventures, so as to maximize returns for the shareholders and investors.

EMPLOYEES

As at 30 June 2015, the Group had 516 full time employees in total (31 December 2014: 458). The Group remunerates its employees based on their performance, experience and prevailing industry practice. Competitive remuneration package is offered to retain elite employees. The package includes salaries, medical insurance, discretionary bonuses, other benefits as well as mandatory provident fund schemes for employees in Hong Kong and state-managed retirement benefit schemes for employees in the PRC.

Management Discussion and Analysis

SHARE OPTION SCHEME

The Company adopted a share option scheme pursuant to a shareholders' resolution passed on 13 December 2013 (the "Share Option Scheme") as incentives or rewards to eligible participants who means full-time or part-time employees of our Company or members of our Group, including Executive Directors, Non-executive Directors and Independent Non-executive Directors, advisors, consultants of our Group. The Share Option Scheme constitutes a share option scheme governed by Chapter 17 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules").

The Share Option Scheme is valid and effective during the period commencing on 13 January 2014 and ending on 12 January 2024, being the date falling 10 years from the date on which the Share Option Scheme becomes unconditional. A summary of the Share Option Scheme is as follows:

Basis of determining the exercise/subscription price

The subscription price for the shares subject for any option under the Scheme shall be the highest of (i) the closing price of the shares as stated in the Stock Exchange's daily quotations sheet on the date of grant of the option, which must be a trading day; (ii) the average closing price of the shares as stated in the Stock Exchange's daily quotations sheets for the five trading days immediately preceding the date of grant of the option; and (iii) the nominal value of the Company's share. A total of 80,000,000 share options have been granted under Share Option Scheme since its adoption.

Maximum number of shares

The total number of shares which may be issued upon the exercise of all options to be granted under the Share Option Scheme must not, in aggregate, exceed 10 percent of the shares in issue as at 12 December 2013 (i.e. 800,000,000 shares) i.e. 80,000,000 shares unless refreshed by the shareholders. However, the Company may not grant any option if the number of shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the Share Option Scheme and other share option schemes adopted by the Group from time to time exceeds 30 percent of the shares in issue.

Maximum entitlement of each participant

The total number of shares issued and to be issued upon exercise of the option granted to a participant under the Share Option Scheme in any 12-month period must not exceed one percent of all the shares in issue from time to time unless a further grant to such participant is approved by the shareholders in general meeting.

Time for acceptance of option

A share option will be offered for acceptance for a period of 28 days from the date on which the option is granted.

Amount payable on application or acceptance of option

HK\$1.00

Minimum and maximum period for the holding of a share option before it can be exercised

Unless otherwise determined by the Directors and stated in the offer of grant of the share options to a grantee, there is no minimum period required under the Share Option Scheme for the holding of a share option before it can be exercised provided that the period within which the option must be exercised must not be more than 10 years from the date of the grant of the option.

Management Discussion and Analysis

The following table disclosed movements in the company's share options granted under the Share Option Scheme during the six months ended 30 June 2015:

Name and category of grantee	Date of grant	Exercisable period	Exercise price per Share	Outstanding at beginning of the period	Granted during the period	Exercised during the period	Lapsed/ cancelled during the period	Outstanding at end of the period
Directors								
Mr. Chen Wei Wei	18/12/14	18/12/14 to 17/12/17	0.65	3,450,000	-	-	-	3,450,000
	18/12/14	18/12/15 to 17/12/17	0.65	3,450,000	-	-	-	3,450,000
Mr. Sun Shao Hua	18/12/14	18/12/14 to 17/12/17	0.65	3,750,000	-	-	-	3,750,000
	18/12/14	18/12/15 to 17/12/17	0.65	3,750,000	-	-	-	3,750,000
Ms. Hu Li Yu	18/12/14	18/12/14 to 17/12/17	0.65	3,300,000	-	-	-	3,300,000
	18/12/14	18/12/15 to 17/12/17	0.65	3,300,000	-	-	-	3,300,000
				21,000,000	-	-	-	21,000,000
Other employees								
	18/12/14	18/12/14 to 17/12/17	0.65	9,500,000	-	-	-	9,500,000
	18/12/14	18/12/15 to 17/12/17	0.65	9,500,000	-	-	-	9,500,000
	24/4/15	24/4/15 to 23/4/18	1.09	-	20,000,000	-	-	20,000,000
	24/4/15	24/4/16 to 23/4/18	1.09	-	20,000,000	-	-	20,000,000
				40,000,000	40,000,000	-	-	80,000,000
Total of all categories				40,000,000	40,000,000	-	-	80,000,000

EXCHANGE RISK EXPOSURE

The Group mainly operates in the PRC and most of its operating transactions are settled in RMB. Most of its assets and liabilities are denominated in RMB. Although the Group may be exposed to foreign currency exchange risks, the Board does not expect future currency fluctuations to materially impact the Group's operations. The Group did not adopt formal hedging policies and no instruments have been applied for foreign currency hedging purposes during the period under review.

Management Discussion and Analysis

INTERIM DIVIDEND

The Board did not recommend the payment of an interim dividend for the six months ended 30 June 2015 (six months ended 30 June 2014: nil) to the shareholders.

CAPITAL COMMITMENTS

As at 30 June 2015, the Group's capital commitments were approximately RMB67.9 million (31 December 2014: approximately RMB67.9 million). All the capital commitments were related to capital contribution payable to subsidiaries.

CONTINGENT LIABILITIES

As at 30 June 2015, the Group did not have any material contingent liabilities or guarantees.

PLEDGE OF ASSETS

As at 30 June 2015, the Group pledged certain assets with a carry value of approximately RMB184.3 million (31 December 2014: approximately RMB15.6 million) as collateral for the Group's bills payable and bank borrowings.

SIGNIFICANT INVESTMENT, MATERIAL ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES AND ASSOCIATED COMPANIES

The Group did not have any significant investments, material acquisition or disposal of subsidiaries or associates during the six months ended 30 June 2015.

Other Information

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the six months ended 30 June 2015.

DIRECTORS' INTERESTS OR SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY OR THE ASSOCIATED CORPORATIONS

As at 30 June 2015, the Directors of the Company had the following interests in the shares, underlying shares and debentures of the Company, its Group members and/or associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")), as recorded in the register required to be kept under Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code:

Long positions

Name of director	Name of group member/associated corporation	Capacity/nature of interest	Number of shares held	Approximate percentage of shareholding
Mr. Sun Shao Hua	Our Company	Interest of a controlled corporation	408,000,000	51.0%

Notes: These shares are registered in the name of Novel Blaze Limited ("Novel Blaze"), the entire issued share capital of which is wholly and beneficially owned by Mr. Sun Shao Hua. Therefore, Mr. Sun is deemed to be interested in all the Shares held by Novel Blaze by virtue of the SFO.

Save as disclosed above, as at 30 June 2015, none of the Directors and chief executives of the Company had any other interests or short positions in any shares, underlying shares or debentures of the Company, any of its Group members or its associated corporations (within the meaning of Part XV of the SFO) which were notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO), or which were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein, or which were required, pursuant to the Model Code.

Other Information

SUBSTANTIAL SHAREHOLDERS' INTERESTS AND SHORT POSITION IN SHARES AND UNDERLYING SHARES

As at 30 June 2015, so far as is known to the Directors, the following persons/entities, not being a Director or chief executive of the Company, had interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO:

Long positions in shares of the Company

Name of shareholder	Capacity	Number of Shares held	Approximate percentage of shareholding
Novel Blaze	Beneficial owner	408,000,000	51.0%
Mr. Zhuo Longwang	Beneficial owner	68,180,000	8.5%
Qi Yuan Asset Management (H.K.) Ltd.	Investment manager	58,450,000	7.3%
Mr. Wu Shifa	Beneficial owner	51,000,000	6.4%

CORPORATE GOVERNANCE

The Company has adopted the Code Provisions in the Corporate Governance Code ("CG Code") as set out in Appendix 14 to the Listing Rules as its own code of corporate governance. The Board confirms that, saved as disclosed below, the Company has complied with the CG Code throughout the six months ended 30 June 2015.

The Company is aware of the requirement under paragraph A.2.1 of the CG Code that the roles of chairman and chief executive officer should be separated and should not be performed by the same individual. The Company does not have any officer with the title of "chief executive officer". Mr. Chen Wei Wei, the Chairman of the Group, is also responsible for the leadership and effective running of the Board, ensuring that all material issues are decided by the Board in a conducive manner. The Board considers that this structure will not impair the balance of power and authority between the Board and the management of the Company. The roles of the respective Executive Directors and senior management, who are in charge of different functions, complement the role of the Chairman. The Board is of the view that this structure provides the Group with strong and consistent leadership, facilitates effective and efficient planning and implementation of business decisions and strategies, and ensures the generation of shareholders' benefits.

The Board shall nevertheless review the structure from time to time to ensure appropriate move is being taken should suitable circumstance arise.

Other Information

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Companies (the "Model Code") as set out in Appendix 10 to the Listing Rules as its own code of conduct for securities transactions. Having made specific enquiries, all the Directors confirm that they have complied with the Model Code throughout the period under review.

AUDIT COMMITTEE

The Company established an Audit Committee with written terms of reference in compliance with the CG Code as set out in Appendix 14 to the Listing Rules.

The primary duties of the Audit Committee, among other things, are to make recommendation to the Board on the appointment, re-appointment and removal of external auditors, review the financial statements and provide material advice in respect of financial reporting and oversee the internal control procedures of the Company. The Audit Committee consists of three Independent Non-executive Directors, namely Mr. Ma Yiu Ho, Peter (Chairman), Mr. Liu Da Jin and Mr. Wu Ping.

The unaudited condensed consolidated interim financial statements for the six months ended 30 June 2015 have not been audited by the auditor of the Company but have been reviewed by the Audit Committee. The Audit Committee is of the view that the interim report for the six months ended 30 June 2015 is prepared in accordance with applicable accounting standards, rules and regulations and appropriate disclosures have been duly made.

Other Information

UPDATE OF DIRECTOR'S INFORMATION

Mr. Ma Yiu Ho, Peter ("Mr. Ma"), aged 50, was appointed as an Independent Non-executive Director on 13 December 2013. He is also the chairman of the Audit Committee. Mr. Ma is currently the financial controller of Chyau Fwu Properties Limited, a company principally engaged in property development and hospitality. He has been a member of the Hong Kong Institute of Certified Public Accountants since February 1990 and a fellow member of the Association of Chartered Certified Accountants (UK) since April 1994. Mr. Ma obtained a Master Degree of Business Administration from the Hong Kong University of Science and Technology in November 1995. He is also an associate member of the Hong Kong Institute of Directors. He has over 20 years of experience in the finance and accounting field and had been the financial controller and company secretary of The Hong Kong Parkview Group Limited (now named as Joy City Property Limited, stock code: 207) and the financial controller of VODone Limited (now named as V1 Group Limited, stock code: 82), shares of these two companies are listed on the Stock Exchange. He had also served as the chief financial officer of Superior Fastening Technology Limited, a Singapore listed company. Mr. Ma had also worked for Standard Chartered Equitor Trustee HK Limited and the Hong Kong Government's Audit Department. He has been an independent non-executive director of Sky Forever Supply Chain Management Group Limited (formerly known as Rising Power Group Holdings Limited) (stock code: 8047) from July 2014 to May 2015. Mr. Ma is currently and has been an independent non-executive director and chairman of the Audit Committee of Convoy Financial Holdings Limited (stock code: 1019) and Huisheng International Holdings Limited (stock code: 1340) since March 2010 and February 2014 respectively. Shares of these three companies are listed on the Stock Exchange.

The board (the "Board") of directors (the "Directors") of China Packaging Holdings Development Limited (the "Company") is pleased to announce the unaudited condensed consolidated interim results of the Company and its subsidiaries (collectively the "Group") for the six months ended 30 June 2015 together with the unaudited comparative figures for the six months ended 30 June 2014 as follows:

Condensed Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the six months ended 30 June 2015

		Six months ended 30 June	
	Notes	2015 (Unaudited) RMB'000	2014 (Unaudited) RMB'000
Turnover	4	274,601	216,146
Cost of sales		(210,739)	(163,756)
Gross profit		63,862	52,390
Other revenue	5	765	512
Other income	6	4,178	5,705
Selling and distribution expenses		(14,707)	(9,260)
Administrative expenses		(10,700)	(15,206)
Equity-settled share option expenses		(10,298)	-
Profit from operating activities		33,100	34,141
Finance costs	8	(1,137)	(985)
Profit before tax	7	31,963	33,156
Income tax expenses	9	(6,830)	(11,241)
Profit for the period		25,133	21,915
Other comprehensive income for the period, net of tax <i>Items that may be reclassified subsequently to profit or loss:</i>			
Exchange differences on translating of foreign operations		5	219
Other comprehensive income for the period, net of tax		5	219
Total comprehensive income for the period, net of tax		25,138	22,134
Profit attributable to owners of the Company		25,133	21,915
Total comprehensive income attributable to owners of the Company		25,138	22,134
Earnings per share attributable to owners of the Company			
– Basic (RMB cents)	11	3.14	2.79
– Diluted (RMB cents)	11	3.04	2.79

Condensed Consolidated Statement of Financial Position

At 30 June 2015

	Notes	30 June 2015 (Unaudited) RMB'000	31 December 2014 (Audited) RMB'000
Non-current assets			
Property, plant and equipment	12	146,070	153,034
Prepaid lease payments		2,346	2,375
		148,416	155,409
Current assets			
Inventories		18,872	17,890
Trade receivables	13	136,484	105,797
Prepayments, deposits and other receivables		21,227	9,587
Derivative financial instruments	16, 17	3,666	-
Tax recoverable		-	960
Pledged bank deposits		66,955	660
Cash and bank balances		220,348	92,481
		467,552	227,375
Current liabilities			
Trade, bills, other payables and accruals	14	108,525	95,615
Bank borrowings	15	27,170	11,000
Promissory note	16	64,331	-
Convertible bonds	17	15,295	-
Tax payables		329	-
		215,650	106,615
Net current assets		251,902	120,760
Total assets less current liabilities		400,318	276,169
Non-current liability			
Bank borrowings	15	87,800	-
Net assets		312,518	276,169
Capital and reserves			
Share capital	18	6,287	6,287
Reserves		306,231	269,882
Total equity		312,518	276,169

Condensed Consolidated Statement of Changes in Equity

For the six months ended 30 June 2015

Attributable to owners of the Company

	Reserves								
	Share capital RMB'000	Share premium RMB'000	Share		Statutory reserve RMB'000	Other reserve RMB'000	Exchange reserve RMB'000	Retained profit RMB'000	Total RMB'000
			option reserve RMB'000	Convertible bonds reserve RMB'000					
At 1 January 2014 (Audited)	-	-	-	-	12,559	15,901	2,731	107,487	138,678
Profit for the period	-	-	-	-	-	-	-	21,915	21,915
Other comprehensive income for the period	-	-	-	-	-	-	219	-	219
Total comprehensive income for the period	-	-	-	-	-	-	219	21,915	22,134
Issue of shares									
– Capitalisation issue	4,715	(4,715)	-	-	-	-	-	-	-
– Share offer	1,572	78,580	-	-	-	-	-	-	80,152
Expenses incurred in connection with the issue of ordinary shares	-	(9,277)	-	-	-	-	-	-	(9,277)
At 30 June 2014 (Unaudited)	6,287	64,588	-	-	12,559	15,901	2,950	129,402	231,687
At 1 January 2015 (Audited)	6,287	64,588	4,274	-	20,105	15,901	2,951	162,063	276,169
Profit for the period	-	-	-	-	-	-	-	25,133	25,133
Other comprehensive income for the period	-	-	-	-	-	-	5	-	5
Total comprehensive income for the period	-	-	-	-	-	-	5	25,133	25,138
Equity-settled share option expenses	-	-	10,298	-	-	-	-	-	10,298
Issue of convertible bonds	-	-	-	913	-	-	-	-	913
At 30 June 2015 (Unaudited)	6,287	64,588	14,572	913	20,105	15,901	2,956	187,196	312,518

Condensed Consolidated Statement of Cash Flows

For the six months ended 30 June 2015

	Six months ended 30 June	
	2015	2014
	(Unaudited)	(Unaudited)
	RMB'000	RMB'000
Operating activities		
Cash generated from operations	(46,597)	29,690
PRC tax paid	(5,541)	(10,787)
Net cash (used in)/generated from operating activities	(52,138)	18,903
Investing activities		
Deposit paid for acquisition of equipment	–	(22,239)
Purchase of property, plant and equipment	(118)	(16,669)
Other cash flows arising from investing activities	219	165
Net cash generated from/(used in) investing activities	101	(38,743)
Financing activities		
Proceeds from bank borrowings	109,970	9,000
Repayments of bank borrowings	(6,000)	(610)
Net proceed from issue of ordinary shares	–	70,875
Net proceeds from issue of promissory note	61,677	–
Net proceeds from issue of convertible bonds	15,417	–
Other cash flows arising from financing activities	(960)	(796)
Net cash generated from financing activities	180,104	78,469
Net increase in cash and cash equivalents	128,067	58,629
Cash and cash equivalents at the beginning of the period	92,481	45,834
Effect of exchange rate changes on the balance of cash held in foreign currencies	(200)	227
Cash and cash equivalents at the end of the period	220,348	104,690
Analysis of balances of cash and cash equivalents		
Cash and bank balances	220,348	104,690

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2015

1. BASIS OF PREPARATION

The unaudited condensed consolidated financial statements have been prepared in accordance with the Hong Kong Accounting Standard (the “HKAS”) 34 “Interim financial reporting” issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”) and the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities (the “Listing Rules”) on the Stock Exchange of Hong Kong Limited (the “Stock Exchange”).

The unaudited condensed consolidated financial statements should be read in conjunction with the annual financial statements of the Group for the year ended 31 December 2014 as contained in the Company’s annual report 2014 (the “Annual Report 2014”), which have been prepared in accordance with the Hong Kong Financial Reporting Standards (the “HKFRSs”).

These unaudited condensed consolidated financial statements are presented in Renminbi (“RMB”) and rounded to the nearest thousand (RMB’000), unless otherwise stated. RMB is the Company’s presentation currency and the functional currency of the principal operating subsidiary of the Group. The functional currency of the Company is Hong Kong dollars. The directors consider that choosing RMB as the presentation currency best suits the needs of the shareholders and investors. These unaudited condensed consolidated financial statements were approved for issue on 28 August 2015.

2. SIGNIFICANT ACCOUNTING POLICIES

The unaudited condensed consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments which are measured at fair values. Historical cost is generally based on the fair value of the consideration given in exchange for assets.

The accounting policies adopted in the unaudited condensed consolidated financial statements for the six months ended 30 June 2015 are consistent with those followed in the preparation of the Annual Report 2014 except for the impact of the adoption of the new and revised standards, amendments and interpretations (the “new HKFRSs”).

In the current period, the Group has applied, for the first time, the following new HKFRSs issued by the HKICPA, which are effective for the Group’s financial year beginning on 1 January 2015. A summary of the new HKFRSs are set out as below:

HKFRSs (Amendments)	Annual Improvements to HKFRSs 2010-2012 Cycle
HKFRSs (Amendments)	Annual Improvements to HKFRSs 2011-2013 Cycle
HKAS 19 (Amendments)	Defined Benefit Plans: Employee Contributions

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2015

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The application of the above new HKFRSs had no material effect on the results and financial positions of the Group for the current or prior accounting periods have been prepared and presented. Accordingly, no prior period adjustment has been required.

The Group has not early applied any new HKFRSs that have been issued but are not yet effective for the current accounting period.

3. OPERATING SEGMENT

The Group currently operates in one operating segment which is the sales of paper-based packaging products. The chief operating decision makers allocated resources and assessed performance based on the results of the period for the entire business comprehensively. Accordingly, the Group does not present separately segment information.

Segment revenue reported represents revenue generated from external customers. There were no inter-segment sales for the six months ended 30 June 2015 (six months ended 30 June 2014: Nil).

During the six months ended 30 June 2015 and 2014, all revenue is derived from customers in the PRC.

4. TURNOVER

Turnover represents the net amounts received and receivable for goods sold, net of discounts and excludes value added tax.

An analysis of the Group's turnover is as follows:

	Six months ended 30 June	
	2015	2014
	(Unaudited)	(Unaudited)
	RMB'000	RMB'000
Flexo-printed cartons	152,448	120,391
Offset-printed cartons		
– Traditional paper-based cartons	73,907	64,942
– Stone-paper based cartons	48,246	30,813
	274,601	216,146

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2015

5. OTHER REVENUE

	Six months ended 30 June	
	2015 (Unaudited) RMB'000	2014 (Unaudited) RMB'000
Sales of residual materials	550	347
Bank interest income	215	165
	765	512

6. OTHER INCOME

	Six months ended 30 June	
	2015 (Unaudited) RMB'000	2014 (Unaudited) RMB'000
Tax concession (Note)	4,178	5,542
Exchange gain	–	163
	4,178	5,705

Note: Tax concession represents the government subsidy given by the local government with reference to the amount of value-added tax, land use tax and enterprise income tax paid in the PRC.

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2015

7. PROFIT BEFORE TAX

Profit before tax has been arrived at after charging:

	Six months ended 30 June	
	2015 (Unaudited) RMB'000	2014 (Unaudited) RMB'000
Staff costs:		
Employee benefit expense (including directors' remuneration)		
Wages and salaries	16,364	10,324
Retirement benefit schemes contributions	1,907	1,251
	18,271	11,575
Other items:		
Cost of inventories sold	210,739	163,756
Depreciation of property, plant and equipment	7,075	2,770
Amortisation of prepaid lease payments	30	30
Loss on disposal of property, plant and equipment	2	–
Minimum lease payments under operating leases of rented premises	82	82
Research and development costs	1,891	999
Equity-settled share option expenses	10,298	–

8. FINANCE COSTS

	Six months ended 30 June	
	2015 (Unaudited) RMB'000	2014 (Unaudited) RMB'000
Interest expenses on bank borrowings wholly repayable within five years	960	985
Imputed interest on promissory note	122	–
Imputed interest on convertible bonds	55	–
	1,137	985

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2015

9. INCOME TAX EXPENSES

	Six months ended 30 June	
	2015 (Unaudited) RMB'000	2014 (Unaudited) RMB'000
The PRC Enterprise Income Tax		
– Current tax	6,694	10,077
– Under provision in prior period	136	1,164
Total income tax recognised in profit or loss	6,830	11,241

No deferred tax has been provided for as there were no material temporary differences.

Hong Kong Profits Tax is calculated at 16.5% of the estimated assessable profit for the period (six months ended 30 June 2014: 16.5%). No Hong Kong profits tax is provided for the period as the Group does not have any assessable profit from the Group's operation located in Hong Kong.

A PRC subsidiary is subject to the PRC Enterprise Income Tax at 25% for the six months ended 30 June 2015 (six months ended 30 June 2014: 25%). Pursuant to the relevant laws and regulations in the PRC, this PRC subsidiary is entitled to preferential treatment on enterprise income tax enjoyed by high and new technology enterprise for three years from 2014 to 2016. As such, the applicable enterprise income tax rate for this PRC subsidiary has been reduced from 25% to the preferential tax rate of 15% for the three years from 2014 to 2016.

10. INTERIM DIVIDEND

The directors do not recommend payment of any dividends for the six months ended 30 June 2015 (six months ended 30 June 2014: Nil).

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2015

11. EARNINGS PER SHARE

The calculation of basic and diluted earnings per share attributable to owners of the Company is based on the following data:

Earnings

	Six months ended 30 June	
	2015 (Unaudited) RMB'000	2014 (Unaudited) RMB'000
Profit attributable to owners of the Company for the purpose of basic earnings per share	25,133	21,915
Effect of dilutive potential ordinary shares:		
Interest on convertible bonds, net of tax	46	–
Profit attributable to owners of the Company for the purpose of diluted earnings per share	25,179	21,915

Number of shares

	Six months ended 30 June	
	2015 (Unaudited)	2014 (Unaudited)
Weighted average number of ordinary shares for the purpose of basic earnings per share	800,000,000	786,740,331
Effect of dilutive potential ordinary shares:		
Share options issued by the Company	5,772,602	–
Convertible bonds	23,529,411	–
Weighted average number of ordinary shares for the purpose of diluted earnings per share	829,302,013	786,740,331

Basic earnings per share for the period ended 30 June 2015 and 2014 are calculated by dividing the profit for the period attributable to owners of the Company by the weighted average number of shares in issue during the period.

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2015

11. EARNINGS PER SHARE (CONTINUED)

Diluted earnings per share for the period ended 30 June 2015 is calculated by adjusting the weighted average number of shares in issue during the period to assume conversion of all dilutive potential ordinary shares. The weighted average number of ordinary shares as above is adjusted by the number of shares that would have been issued assuming the exercise of share options and conversion of convertible bonds.

Diluted earnings per share for the period ended 30 June 2014 were the same as the basic earnings per share as there were no potential dilutive ordinary shares in issue during the period ended 30 June 2014.

12. PROPERTY, PLANT AND EQUIPMENT

	Machinery RMB'000	Computer and office equipment RMB'000	Motor vehicles RMB'000	Buildings RMB'000	Leasehold improvements RMB'000	Total RMB'000
Cost						
At 31 December 2014 and 1 January 2015 (Audited)	114,289	516	588	65,113	125	180,631
Additions	110	7	-	-	-	117
Disposal	-	-	(108)	-	-	(108)
Exchange realignment	-	-	-	-	(1)	(1)
At 30 June 2015 (Unaudited)	114,399	523	480	65,113	124	180,639
Accumulated depreciation						
At 31 December 2014 and 1 January 2015 (Audited)	18,519	356	427	8,245	50	27,597
Charge for the period	5,432	40	30	1,546	27	7,075
Written back on disposal	-	-	(103)	-	-	(103)
At 30 June 2015 (Unaudited)	23,951	396	354	9,791	77	34,569
Carrying amounts						
At 30 June 2015 (Unaudited)	90,448	127	126	55,322	47	146,070
At 31 December 2014 (Audited)	95,770	160	161	56,868	75	153,034

Assets pledged as security

As at 30 June 2015, machinery and buildings with a carrying amounts of approximately RMB62,282,000 (31 December 2014: RMB14,915,000) and RMB55,073,000 (31 December 2014: Nil) respectively have been pledged to secure bank borrowings (Note 15) granted to the Group.

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2015

13. TRADE RECEIVABLES

The following is an analysis of trade receivables by age, presented based on the invoice date. The analysis below is net of allowance for doubtful debts:

	30 June 2015 (Unaudited) RMB'000	31 December 2014 (Audited) RMB'000
0 – 30 days	64,857	55,635
31 – 60 days	60,922	50,162
61 – 90 days	10,705	–
	136,484	105,797

The average credit period on sales of goods is from 30 to 90 days. In determining the recoverability of a trade receivable, the Group considers any change in the credit quality of the trade receivable from the date credit was initially granted up to the end of the reporting period. The concentration of credit risk is limited due to the customer base being large and unrelated. Allowances for doubtful debts are recognised against trade receivables based on estimated irrecoverable amounts determined by reference to past default experience of the counterparty and an analysis of the counterparty's current financial position. The directors of the Company considered no provision for impairment is recognised during the period (six months ended 30 June 2014: Nil) as these customers had no recent history of default.

The Company does not hold any collaterals or other credit enhancements over these balances.

As at 30 June 2015, no trade receivables were past due but not impaired (31 December 2014: Nil).

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2015

14. TRADE, BILLS, OTHER PAYABLES AND ACCRUALS

	30 June 2015 (Unaudited) RMB'000	31 December 2014 (Audited) RMB'000
Trade payables	76,228	76,909
Bills payable	21,590	660
Accruals	10,075	9,880
Other payables	632	8,166
	108,525	95,615

An aged analysis of the trade payables, based on invoice date, is as follows:

	30 June 2015 (Unaudited) RMB'000	31 December 2014 (Audited) RMB'000
0 – 30 days	37,681	40,422
31 – 60 days	38,547	36,487
	76,228	76,909

The average credit period on purchases of certain goods is 60 days. The Company has financial risk management policies in place to ensure that all payables are paid within the credit timeframe.

As at 30 June 2015, the bills payable of approximately RMB21,590,000 (31 December 2014: RMB660,000) was secured by the bank deposits.

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2015

15. BANK BORROWINGS

	30 June 2015 (Unaudited) RMB'000	31 December 2014 (Audited) RMB'000
Secured	114,970	11,000
Carrying amount repayable:		
Within one year	27,170	11,000
More than one year, but not exceeding two years	87,800	–
Less: Amounts shown under current liabilities	114,970 (27,170)	11,000 (11,000)
Amounts shown under non-current liabilities	87,800	–

All the bank borrowings were denominated in RMB. As at 30 June 2015 and 31 December 2014, the bank borrowings were secured by certain property, plant and equipment, prepaid lease payments and pledged bank deposits held by the Group.

The ranges of effective interest rates (which are equal to the contracted interest rates) on bank borrowings are as follows:

	30 June 2015 (Unaudited)	31 December 2014 (Audited)
Fixed rate	5.1% to 7.8%	6.6% to 7.8%

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2015

16. PROMISSORY NOTE

On 19 June 2015, the Company issued a redeemable 7.5% promissory note with the principal amount of HK\$80,000,000 and interest payable half yearly (the "Promissory Note").

The Promissory Note has a term of one year and the holder shall extend the Promissory Note on the same terms and conditions of the Promissory Note for a further period of one year (the "Extended Term of the Promissory Note") provided that the Group's earnings before interest, taxes, depreciation and amortisation ("EBITDA") for the financial year before the end of the term is not less than RMB52,000,000 and the consolidated net asset value of the Group is not less than RMB220,000,000.

The Company may, prior to the maturity date of the Promissory Note from and including the date falling 12 months from the date of issue redeem the outstanding principal amount of the Promissory Note, with all amounts of accrued interests, handling fee and all other outstanding amount payable by the Company to the holder of the Promissory Notes, and without penalty.

The Promissory Note has the benefit of the security constituted by the share charges created by Rich Kirin Holdings Limited and Big Wealth Limited; the guarantee of Mr. Sun Shao Hua, a Director and a controlling shareholder of the Company; and the guarantee of Novel Blaze Limited, the ultimate holding company of the Company.

The Promissory Note contains two components: term extension derivative and liability component. The fair value of the liability component of the Promissory Note at the date of issue was estimated to be approximately RMB64,534,000 based on the effective interest rate of 6.3% per annum. The term extension derivative is measured at fair value with changes in fair value recognised in profit or loss.

The movements of the liability component and term extension derivative of the Promissory Note during the period are set out below:

	Liability component	Term extension derivative	Total
	RMB'000	RMB'000	RMB'000
At 31 December 2014 and 1 January 2015 (Audited)	–	–	–
Issue of promissory note	64,534	(2,857)	61,677
Imputed interest charged	122	–	122
Coupon interest payable	(162)	–	(162)
Exchange realignment	(163)	7	(156)
At 30 June 2015 (Unaudited)	64,331	(2,850)	61,481

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2015

17. CONVERTIBLE BONDS

On 19 June 2015, the Company issued redeemable 7.5% convertible bonds with aggregate principal amount of HK\$20,000,000 and interest payable half yearly (“Convertible Bonds”). The Convertible Bonds entitle the holder to convert to ordinary shares of the Company at a conversion price of HK\$0.85 per share and will be converted into 23,529,411 shares assuming full conversion.

Conversion may occur at any time during the term of the Convertible Bonds.

The Convertible Bonds have a term of one year and the holder shall extend the Convertible Bonds on the same terms and conditions of the Convertible Bonds for a further period of one year (the “Extended Term of the Convertible Bonds”) provided that the Group’s EBITDA for the financial year before the end of the term is not less than RMB52,000,000 and the consolidated net asset value of the Group is not less than RMB220,000,000.

Subject to the Promissory Note (Note 16) having been redeemed in full, the Company has the right to redeem all (but not part of) the outstanding principal amount of the Convertible Bonds at any time during the period between the first day of the twelfth month following the date of issue of the Convertible Bonds and the last day immediately preceding the maturity date of the Convertible Bonds.

Unless previously redeemed, converted, purchased and cancelled, the Company shall pay on the maturity date an aggregate price of (i) the outstanding principal amount of the Convertible Bonds on the maturity date, (ii) 17.5% of the outstanding principal amount on the maturity date of the Convertible Bonds (exclusive of interest) multiplied by the term or the Extended Term of the Convertible Bonds expressed in years for the redemption of the portion of the Convertible Bonds which has not been converted into Shares, (iii) all accrued and unpaid interest and handling fee and unpaid default interest accrued in respect of such outstanding principal amount of the Convertible Bonds to be redeemed, and (iv) all other outstanding amounts payable by the Company to the holder of the Convertible Bonds.

The Convertible Bonds have the benefit of the security constituted by the share charges created by Rich Kirin Holdings Limited and Big Wealth Limited; the guarantee of Mr. Sun Shao Hua, a Director and a controlling shareholder of the Company; and the guarantee of Novel Blaze Limited, the ultimate holding company of the Company.

The Convertible Bonds contains four components: redemption option derivative, term extension derivative, liability component and equity component. The equity component is presented in equity heading “convertible bonds reserve”. The effective interest rate of the liability component on initial recognition is 11.8% per annum. The redemption option derivative and term extension derivative is measured at fair value with changes in fair value recognised in profit or loss.

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2015

17. CONVERTIBLE BONDS (CONTINUED)

Details of the Convertible Bonds on initial recognition are as follows:

	RMB'000 (Unaudited)
Liability component	15,320
Equity component	915
Redemption option derivative	(155)
Term extension derivative	(663)
Proceeds from issue of the Convertible Bonds	<u>15,417</u>

The movements of the liability component, equity component, redemption option derivative and term extension derivative of the Convertible Bonds during the period are set out below:

	Liability component RMB'000	Equity component RMB'000	Redemption option derivative RMB'000	Term extension derivative RMB'000	Total RMB'000
At 31 December 2014 and 1 January 2015 (Audited)	–	–	–	–	–
Issue of convertible bonds	15,320	915	(155)	(663)	15,417
Imputed interest charged	55	–	–	–	55
Coupon interest payable	(41)	–	–	–	(41)
Exchange realignment	(39)	(2)	–	2	(39)
At 30 June 2015 (Unaudited)	15,295	913	(155)	(661)	15,392

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2015

18. SHARE CAPITAL AND SHARE OPTION SCHEME

Share capital

	Number of shares '000	Share capital HK\$'000
<i>Authorised:</i>		
Ordinary shares of HK\$0.01 each	8,000,000	80,000

	Number of shares '000	HK\$'000	Share capital RMB'000
<i>Issued and fully paid:</i>			
At 31 December 2014, 1 January 2015 (Audited) and 30 June 2015 (Unaudited)			
Ordinary shares of HK\$0.01 each	800,000	8,000	6,287

Share option scheme

The Company operates a share option scheme ("the Scheme") pursuant to a shareholders' resolution passed on 13 December 2013 for the purpose of providing incentives and rewards to eligible participants for their contributions to the Group. Eligible participants of the Scheme included any full-time or part-time employee of the Company or any member of the Group, including any Executive Directors, Non-executive Directors and Independent Non-executive Directors, advisors, consultants of the Group. The Scheme was valid and effective on 13 January 2014 and, unless otherwise altered or terminated, will remain in full force for a period of ten years from that date.

The maximum number of shares in respect of which share options may be granted under the Scheme must not exceed 10% of the share capital of the Company in issue as at the date of approval of the Scheme (the "Scheme Mandate Limit"). Subject to the approval of shareholders in general meeting, the Company may refresh the Scheme Mandate Limit to the extent that the total number of shares which may be issued upon exercise of all options to be granted under the Scheme under the Scheme Mandate Limit as refreshed must not exceed 10% of the shares in issue as at the date of such shareholders' approval. However, the Company may not grant any option if the number of shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the Scheme and other share option schemes exceeds 30% of the shares in issue.

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2015

18. SHARE CAPITAL AND SHARE OPTION SCHEME (CONTINUED)

Share option scheme (continued)

In addition, the maximum number of shares in respect of which share options may be granted to any eligible participant within any 12-month period is limited to 1% of the shares of the Company in issue at any time. Any future grant of share options in excess of this limit is subject to shareholders' approval in a general meeting.

The subscription price for the shares subject to options will be a price determined by the Board and notified to each participant and shall be the highest of (i) the closing price of the shares as stated in the Stock Exchange's daily quotations sheet on the date of grant of the options, which must be a trading day; (ii) the average closing price of the shares as stated in the Stock Exchange's daily quotations sheets for the five trading days immediately preceding the date of grant of the options; and (iii) the nominal value of a share.

The offer of a grant of share options may be accepted within 28 days from the date of the offer with a consideration of HK\$1 being payable by the participant. An option may be exercised in accordance with the terms of the Scheme at any time during a period to be determined and notified by our Board to each participant provided that the period within which the option must be exercised shall not be more than 10 years from the date of the grant of option. The exercise of an option may be subject to the administration of our Board whose decision as to all matters arising from or in relation to the Scheme as its interpretation or effect shall (save as otherwise provided herein) be final and binding on all parties to the Scheme.

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2015

18. SHARE CAPITAL AND SHARE OPTION SCHEME (CONTINUED)

Share option scheme (continued)

The following table discloses the movements of the Company's share options:

30 June 2015 (Unaudited)

Name or category of participant	Option type	Number of share options					At 30 June 2015	Date of grant of share options (dd/mm/yy)	Exercise period of share options (dd/mm/yy)	Exercise price of share options HK\$	Price of Company's share at grant date of share options HK\$
		At 1 January 2015	Granted during the period	Exercised during the period	Forfeited during the period	Expired during the period					
Directors											
Mr. Chen Wei Wei	2014 tranche 1	3,450,000	-	-	-	-	3,450,000	18/12/14	18/12/14 to 17/12/17	0.65	0.65
Mr. Chen Wei Wei	2014 tranche 2	3,450,000	-	-	-	-	3,450,000	18/12/14	18/12/15 to 17/12/17	0.65	0.65
Mr. Sun Shao Hua	2014 tranche 1	3,750,000	-	-	-	-	3,750,000	18/12/14	18/12/14 to 17/12/17	0.65	0.65
Mr. Sun Shao Hua	2014 tranche 2	3,750,000	-	-	-	-	3,750,000	18/12/14	18/12/15 to 17/12/17	0.65	0.65
Ms. Hu Li Yu	2014 tranche 1	3,300,000	-	-	-	-	3,300,000	18/12/14	18/12/14 to 17/12/17	0.65	0.65
Ms. Hu Li Yu	2014 tranche 2	3,300,000	-	-	-	-	3,300,000	18/12/14	18/12/15 to 17/12/17	0.65	0.65
Employees of the Group	2014 tranche 1	9,500,000	-	-	-	-	9,500,000	18/12/14	18/12/14 to 17/12/17	0.65	0.65
Employees of the Group	2014 tranche 2	9,500,000	-	-	-	-	9,500,000	18/12/14	18/12/15 to 17/12/17	0.65	0.65
Employees of the Group	2015 tranche 1	-	20,000,000	-	-	-	20,000,000	24/04/15	24/04/15 to 23/04/18	1.09	1.09
Employees of the Group	2015 tranche 2	-	20,000,000	-	-	-	20,000,000	24/04/15	24/04/16 to 23/04/18	1.09	1.09
		40,000,000	40,000,000	-	-	-	80,000,000				

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18. SHARE CAPITAL AND SHARE OPTION SCHEME (CONTINUED)

Share option scheme (continued)

Options that were granted during the six months ended 30 June 2015 have a term of three years commencing from 24 April 2015 and shall vest and become exercisable in two equal tranches on 24 April 2015 and 24 April 2016 respectively. The remaining exercisable period of 2015 tranche 1 and 2 were approximately 3 and 2 years respectively.

At 30 June 2015, the number of shares in respect of which share options had been granted and remained outstanding under the Company's share option scheme was 80,000,000 (31 December 2014: 40,000,000), representing approximately 10% (31 December 2014: 5%) of the shares of the Company in issue at that date.

The Group recognised an expense of RMB10,298,000 for the six months ended 30 June 2015 (six months ended 30 June 2014: Nil) in relation to the outstanding share options granted by the Company.

19. PLEDGED ASSETS

Assets with the following carrying amounts have been pledged to secure bank borrowings (Note 15) and bills payable (Note 14) of the Group.

	30 June 2015 (Unaudited) RMB'000	31 December 2014 (Audited) RMB'000
Machinery (Note 12)	62,282	14,915
Buildings (Note 12)	55,073	–
Pledged bank deposits	66,955	660
	184,310	15,575

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20. MATERIAL RELATED PARTY TRANSACTIONS

Save as disclosed elsewhere in the unaudited condensed consolidated interim financial statements, the Group had entered into the following related party transactions, which in the opinion of the directors of the Company, were carried out on normal commercial terms and in the ordinary course of the Group.

Compensation of key management personnel of the Group, including director's remuneration are as follows:

	Six months ended 30 June	
	2015 (Unaudited) RMB'000	2014 (Unaudited) RMB'000
Fees	95	95
Other emoluments:		
Salaries, allowances and benefits in kind	1,414	1,205
Retirement benefit schemes contributions	27	22
Total	1,536	1,322

21. COMMITMENTS

Operating lease commitment

At the end of the reporting period, the Group had commitments for the future minimum lease payments under non-cancellable operating lease which fall due as follows:

	30 June 2015 (Unaudited) RMB'000	31 December 2014 (Audited) RMB'000
Within one year	68	151
In the second to fifth years inclusive	–	–
Over five years	–	–
Total	68	151

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21. COMMITMENTS (CONTINUED)

Capital commitment

	30 June 2015 (Unaudited) RMB'000	31 December 2014 (Audited) RMB'000
Authorised and contracted for capital contributions payable to subsidiaries	67,880	67,913

Other commitment

For the year ended 31 December 2011, the Group had entered into an agreement with development entity for five years with an annual charge of RMB600,000, for (i) improving the efficiency of production process and the productivity of machinery equipment and; (ii) saving cost and resources; (iii) the development of new products, with a special focus on the production of stone-paper packaging products and (iv) the enhancement of the ability in production technologies and techniques in satisfying a wide range of customer requirements in a cost efficient and profitable manner.

22. FAIR VALUE MEASUREMENT OF FINANCIAL INSTRUMENTS

Financial assets and liabilities measured at fair value

The Group uses the following hierarchy for determining and disclosing the fair values of financial instruments:

- (i) Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identified assets and liabilities.
- (ii) Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the assets or liabilities, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- (iii) Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

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For the six months ended 30 June 2015

22. FAIR VALUE MEASURE OF FINANCIAL INSTRUMENTS (CONTINUED)

Financial assets and liabilities measured at fair value (continued)

The following table gives information about how the fair values of financial instruments are determined.

Recurring fair value measurement	Fair value as at		Fair value hierarchy	Valuation technique and key inputs	Range of significant unobservable inputs
	30 June 2015 (Unaudited) RMB'000	31 December 2014 (Audited) RMB'000			
Financial assets					
Derivative financial instruments:					
– Term extension derivative embedded in the promissory note	2,850	–	Level 3	Binomial option pricing model Key inputs: Discount rate, Share price of the Company, volatility of Company's shares	Discount rate ranging from 12.78% to 13.46%
– Term extension derivative embedded in the convertible bonds	661	–	Level 3	Binomial option pricing model Key inputs: Discount rate, Share price of the Company, volatility of Company's shares	Discount rate ranging from 12.78% to 13.46%
– Redemption option derivative embedded in the convertible bonds	155	–	Level 3	Binomial option pricing model Key inputs: Discount rate, Share price of the Company, volatility of Company's shares	Discount rate ranging from 12.78% to 12.84%

A significant increase in the discount rate used would result in a significant increase in fair value of the term extension derivatives embedded in the promissory note and convertible bonds, and vice versa.

A significant increase in the discount rate used would result in a significant decrease in fair value of the redemption option derivative embedded in the convertible bonds, and vice versa.

The Directors consider that the carrying amounts of other financial assets and financial liabilities recorded at amortised costs in the unaudited condensed consolidated financial statements approximates to their fair values.

There were no transfers between level 1 and 2 during the six months ended 30 June 2015.