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# 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)

## ANNOUNCEMENT OF ANNUAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2015

### FINANCIAL HIGHLIGHTS

	Year ended 31 December		Change
	2015	2014	
	RMB'000	RMB'000	
<b>Revenue</b>	<b>615,372</b>	491,523	25.2%
<b>Gross profit</b>	<b>148,509</b>	117,278	26.6%
<b>Gross profit margin</b>	<b>24.1%</b>	23.9%	
<b>Profit attributable to owners of the Company</b>	<b>54,765</b>	62,122	-11.8%
<b>Earnings per share attributable to owners of the Company</b>			
Basic (RMB cents)	<b>6.85</b>	7.83	-12.5%
Diluted (RMB cents)	<b>6.77</b>	7.83	-13.5%

### THE FINANCIAL STATEMENTS

The board (the “Board”) of directors (the “Directors”) of China Packaging Holdings Development Limited 中華包裝控股發展有限公司 (the “Company”) announces the audited consolidated results of the Company and its subsidiaries (collectively, the “Group”) for the year ended 31 December 2015 together with the comparative figures for the previous financial year as follows:

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

*For the year ended 31 December 2015*

	<i>Notes</i>	<b>2015</b> <b>RMB'000</b>	2014 <i>RMB'000</i>
<b>Revenue</b>	4	<b>615,372</b>	491,523
Cost of sales		<u>(466,863)</u>	<u>(374,245)</u>
<b>Gross profit</b>		<b>148,509</b>	117,278
Other revenue	5	<b>1,886</b>	1,165
Other income	6	<b>7,902</b>	10,767
Selling and distribution expenses		<b>(29,126)</b>	(20,280)
Administrative expenses		<b>(27,377)</b>	(26,874)
Change in fair value of derivative financial instruments		<b>(624)</b>	–
Loss on modification of convertible bonds		<b>(7,021)</b>	–
Equity-settled share option expenses		<u>(15,931)</u>	<u>(4,274)</u>
Profit from operating activities		<b>78,218</b>	77,782
Finance costs	8	<u>(8,374)</u>	<u>(1,781)</u>
Profit before tax	7	<b>69,844</b>	76,001
Income tax expenses	9	<u>(15,079)</u>	<u>(13,879)</u>
<b>Profit for the year</b>		<u><b>54,765</b></u>	62,122
<b>Other comprehensive (loss)/income for the year, net of tax</b>			
<i>Item that may be reclassified subsequently to profit or loss</i>			
Exchange differences on translating foreign operations		<u>(661)</u>	220
Other comprehensive (loss)/income for the year, net of tax		<u>(661)</u>	220
<b>Total comprehensive income for the year, net of tax</b>		<u><b>54,104</b></u>	62,342
<b>Profit attributable to owners of the Company</b>		<u><b>54,765</b></u>	62,122
<b>Total comprehensive income attributable to owners of the Company</b>		<u><b>54,104</b></u>	62,342
<b>Earnings per share attributable to owners of the Company</b>			
– Basic (RMB cents)	11	<u><b>6.85</b></u>	7.83
– Diluted (RMB cents)	11	<u><b>6.77</b></u>	7.83

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2015

	<i>Notes</i>	<b>2015</b> <b>RMB'000</b>	2014 <i>RMB'000</i>
<b>Non-current assets</b>			
Property, plant and equipment		<b>138,996</b>	153,034
Prepaid lease payments		<b>2,315</b>	2,375
		<u><b>141,311</b></u>	<u>155,409</u>
<b>Current assets</b>			
Inventories		<b>25,160</b>	17,890
Trade receivables	<i>12</i>	<b>147,540</b>	105,797
Prepayments and other receivables		<b>16,422</b>	9,587
Derivative financial instruments		<b>5,796</b>	–
Tax recoverable		–	960
Pledged bank deposits		<b>80,602</b>	660
Cash and bank balances		<b>266,206</b>	92,481
		<u><b>541,726</b></u>	<u>227,375</u>
<b>Current liabilities</b>			
Trade, bills, other payables and accruals	<i>13</i>	<b>113,640</b>	95,615
Bank borrowings	<i>14</i>	<b>21,270</b>	11,000
Derivative financial instrument		<b>3,434</b>	–
Promissory note		<b>67,673</b>	–
Convertible bonds		<b>19,346</b>	–
Tax payables		<b>3,897</b>	–
		<u><b>229,260</b></u>	<u>106,615</u>
<b>Net current assets</b>		<u><b>312,466</b></u>	<u>120,760</u>
<b>Total assets less current liabilities</b>		<u><b>453,777</b></u>	<u>276,169</u>
<b>Non-current liabilities</b>			
Deferred taxation		<b>55</b>	–
Bank borrowings	<i>14</i>	<b>102,700</b>	–
		<u><b>102,755</b></u>	<u>–</u>
<b>Net assets</b>		<u><b>351,022</b></u>	<u>276,169</u>
<b>Capital and reserves attributable to owners of the Company</b>			
Share capital		<b>6,287</b>	6,287
Reserves		<b>344,735</b>	269,882
<b>Total equity</b>		<u><b>351,022</b></u>	<u>276,169</u>

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2015

## 1. CORPORATE INFORMATION

The Company was incorporated in Cayman Islands on 12 July 2013 as an exempted company with limited liability under the Companies Law, Chapter 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands. The registered office of the Company is located at Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman KY1-1111, Cayman Islands. The principal place of business of the Company is located at Unit 2, 7th Floor, Wah Hing Commercial Building, 283 Lockhart Road, Wanchai, Hong Kong. The shares of the Company have been listed on the Main Board of the Stock Exchange of Hong Kong Limited (the “Stock Exchange”) since 13 January 2014.

The Directors of the Company consider the parent and the ultimate holding company of the Company to be Novel Blaze Limited (“Novel Blaze”), a company incorporated in the British Virgin Islands (the “BVI”) with limited liability. Its ultimate controlling party is Mr. Sun Shao Hua, who is also the executive director of the Company.

The 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 (“HK\$”). The Directors consider that choosing Renminbi as the presentation currency best suits the needs of the shareholders and investors.

## 2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS (“HKFRSs”)

In the current year, the Group has applied, for the first time, a number of new and revised standards, amendments and interpretations (the “new HKFRSs”) issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”). A summary of the new HKFRSs are set out as below:

HKAS 19 (Amendments)	Defined benefit plans: Employee contributions
HKFRSs (Amendments)	Annual Improvements to HKFRSs 2010-2012 Cycle
HKFRSs (Amendments)	Annual Improvements to HKFRSs 2011-2013 Cycle

The application of these new and revised HKFRSs in the current year has had no material impact on the Group’s financial performance and positions for the current and prior years and on the disclosures set out in these consolidated financial statements.

In addition, the Group has adopted the amendments to the listing rules issued by The Stock Exchange of Hong Kong Limited relating to the disclosure of financial information with reference to the Hong Kong Companies Ordinance (Cap. 622) during the current financial year. The main impact to the consolidated financial statements is on the presentation and disclosure of certain information in the consolidated financial statements.

The Group has not early applied the following new HKFRSs that have been issued but are not yet effective.

HKFRSs (Amendments)	Annual Improvements to HKFRSs 2012-2014 Cycle <sup>1</sup>
HKFRS 9	Financial Instruments <sup>2</sup>
HKFRS 10 and HKAS 28 (Amendments)	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture <sup>4</sup>
HKFRS 10, HKFRS 12 and HKAS 28 (Amendments)	Investment Entities: Applying the Consolidation Exception <sup>1</sup>
HKFRS 11 (Amendments)	Accounting for Acquisitions of Interests in Joint Operations <sup>1</sup>
HKFRS 14	Regulatory Deferral Accounts <sup>5</sup>
HKFRS 15	Revenue from Contracts with Customers <sup>2</sup>
HKFRS 16	Lease <sup>3</sup>
HKAS 1 (Amendments)	Disclosure Initiative <sup>1</sup>
HKAS 16 and HKAS 38 (Amendments)	Clarification of Acceptable Methods of Depreciation and Amortisation <sup>1</sup>
HKAS 16 and HKAS 41 (Amendments)	Agriculture: Bearer Plants <sup>1</sup>
HKAS 27 (Amendments)	Equity Method in Separate Financial Statements <sup>1</sup>

<sup>1</sup> Effective for annual periods beginning on or after 1 January 2016

<sup>2</sup> Effective for annual periods beginning on or after 1 January 2018

<sup>3</sup> Effective for annual periods beginning on or after 1 January 2019

<sup>4</sup> Effective for annual periods beginning on or after a date to be determined

<sup>5</sup> Effective for first annual HKFRS financial statements beginning on or after 1 January 2016

The Directors of the Company do not anticipate that the application of these will have a material effect on the consolidated financial statements.

### 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 who allocates resources and assesses performance based on the results of the year 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 year ended 31 December 2015 (2014: Nil).

During the years ended 31 December 2015 and 2014, all revenue were derived from customers in the People's Republic of China (the "PRC").

As at 31 December 2015 and 2014, most of the Group's non-current assets were located in the PRC. Accordingly, no analysis of the Group's result and assets by geographical area is disclosed.

Included in revenue arising from sales of paper-based packaging products for the year ended 31 December 2015, approximately RMB35,983,000 (2014: RMB37,702,000) are revenue arose from sales to the Group's largest single customer. No single customer contributed 10% or more to the Group's revenue for the year ended 31 December 2015 (2014: Nil).

#### 4. REVENUE

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

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

	2015 <i>RMB'000</i>	2014 <i>RMB'000</i>
Flexo-printed cartons	329,046	265,760
Offset-printed cartons		
– Traditional paper-based cartons	161,961	147,223
– Stone-paper based cartons	124,365	78,540
	<u>615,372</u>	<u>491,523</u>

#### 5. OTHER REVENUE

	2015 <i>RMB'000</i>	2014 <i>RMB'000</i>
Sales of residual materials	1,276	803
Bank interest income	610	362
	<u>1,886</u>	<u>1,165</u>

#### 6. OTHER INCOME

	2015 <i>RMB'000</i>	2014 <i>RMB'000</i>
Tax concession (Note a)	7,891	10,334
Government subsidies (Note b)	11	270
Exchange gain	–	163
	<u>7,902</u>	<u>10,767</u>

*Notes:*

- (a) Tax concession represents another kind of 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.
- (b) Government subsidies represent the financial subsidies given by the local government to encourage the Group's operation in the PRC.

## 7. PROFIT BEFORE TAX

Profit before tax has been arrived at after charging:

	2015 <i>RMB'000</i>	2014 <i>RMB'000</i>
Staff costs:		
Employee benefit expense (including directors' remuneration):		
Wages and salaries	38,698	25,173
Retirement benefit schemes contributions	5,174	4,000
	<u>43,872</u>	<u>29,173</u>
Other items:		
Cost of inventories sold	466,863	374,245
Depreciation of property, plant and equipment	14,152	7,403
Auditors' remuneration	800	750
Amortisation of prepaid lease payments	60	60
Loss on disposal of property, plant and equipment	2	–
Minimum lease payments under operating leases of rented premises	428	164
Research and development costs	3,180	2,976
Equity-settled share option expenses	15,931	4,274

## 8. FINANCE COSTS

	2015 <i>RMB'000</i>	2014 <i>RMB'000</i>
Interest expenses on bank borrowings wholly repayable within one year	4,603	1,781
Imputed interest on promissory note	2,206	–
Imputed interest on convertible bonds	1,565	–
	<u>8,374</u>	<u>1,781</u>

## 9. INCOME TAX EXPENSES

	2015 <i>RMB'000</i>	2014 <i>RMB'000</i>
Current tax		
– The PRC Enterprise Income Tax	15,217	12,715
– Under provision in prior year	–	1,164
	15,217	13,879
Deferred tax		
– Current year	(138)	–
Total income tax recognised in profit or loss	<u>15,079</u>	<u>13,879</u>

No Hong Kong profits tax is provided for as the Group does not have any assessable profit from the Group's operation located in Hong Kong.

The PRC subsidiary is subject to the PRC Enterprise Income Tax at 25% during the year (2014: 25%). Pursuant to the relevant laws and regulations in the PRC, the qualified PRC subsidiary was entitled to preferential treatment on corporate income tax enjoyed by high and new technology enterprise for three years from 2014 to 2016. As such, the applicable corporate income tax rate for the qualified PRC subsidiary has been reduced from 25% to the preferential tax rate of 15% for the three years from 2014 to 2016.

## 10. DIVIDENDS

The Directors of the Company do not recommend payment of any dividends for the year (2014: Nil).

## 11. EARNINGS PER SHARE

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

### Earnings

	<b>2015</b>	2014
	<b>RMB'000</b>	RMB'000
Profit attributable to the owners of the Company for the purpose of basic and diluted earnings per share	<u><b>54,765</b></u>	<u>62,122</u>

### Number of shares

	<b>2015</b>	2014
Weighted average number of ordinary shares for the purpose of basic earnings per share	<b>800,000,000</b>	793,424,658
Effect of dilutive potential ordinary shares: Share options issued by the Company	<u><b>9,043,367</b></u>	<u>57,329</u>
Weighted average number of ordinary shares for the purpose of diluted earnings per share	<u><b>809,043,367</b></u>	<u>793,481,987</u>

Basic earnings per share for the years ended 31 December 2015 and 2014 are calculated by dividing the profit for the year attributable to owners of the Company by the weighted average number of shares in issue during the year.

Diluted earnings per share for the years ended 31 December 2015 and 2014 are calculated by adjusting the weighted average number of shares in issue during the year to assume conversion of all dilutive potential ordinary shares. The weighted average numbers of ordinary shares as above are adjusted by the number of shares that would have been issued assuming the exercise of share options and conversion of convertible bonds.

The computation of diluted earnings per share does not assume the conversion of the Company's outstanding convertible bonds since it would result in an anti-dilutive effect on earnings per share.



## 12. TRADE RECEIVABLES

	<b>2015</b> <i>RMB'000</i>	2014 <i>RMB'000</i>
Trade receivables	<u><b>147,540</b></u>	<u>105,797</u>

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:

	<b>2015</b> <i>RMB'000</i>	2014 <i>RMB'000</i>
0-30 days	<b>65,424</b>	55,635
31-60 days	<b>64,145</b>	50,162
61-90 days	<u><b>17,971</b></u>	<u>–</u>
	<u><b>147,540</b></u>	<u>105,797</u>

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 year (2014: Nil) as these customers had no recent history of default.

The Group does not hold any collateral or other credit enhancements over these balances.

Before accepting any new customer, the Group assesses the potential customer's credit quality and defines credit limits by customer. Of the trade receivables balance as at 31 December 2015 approximately RMB6,781,000 (2014: RMB4,713,000) is due from the Group's largest customer. At 31 December 2015, no customers represent more than 5% of the total balance of trade receivables (2014: Nil) and hence the concentration of credit risk is limited.

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

## 13. TRADE, BILLS, OTHER PAYABLES AND ACCRUALS

	<b>2015</b> <i>RMB'000</i>	2014 <i>RMB'000</i>
Trade payables	<b>74,850</b>	76,909
Bills payables	<b>23,850</b>	660
Accruals	<b>12,698</b>	9,880
Other payables	<u><b>2,242</b></u>	<u>8,166</u>
	<u><b>113,640</b></u>	<u>95,615</u>

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

	<b>2015</b> <i>RMB'000</i>	2014 <i>RMB'000</i>
0-30 days	<b>42,358</b>	40,422
31-60 days	<b>32,492</b>	36,487
	<b>74,850</b>	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 31 December 2015, the bills payable of approximately RMB23,850,000 (2014: RMB660,000) was secured by the pledged bank deposits.

#### 14. BANK BORROWINGS

	<b>2015</b> <i>RMB'000</i>	2014 <i>RMB'000</i>
Secured	<b>123,970</b>	11,000
Carrying amount repayable:		
Within one year	<b>21,270</b>	11,000
More than one year, but not exceeding two years	<b>102,700</b>	–
	<b>123,970</b>	11,000
Less: Amounts shown under current liabilities	<b>(21,270)</b>	(11,000)
Amounts shown under non-current liabilities	<b>102,700</b>	–

All the bank borrowings were denominated in RMB. As at 31 December 2015 and 2014, the bank borrowings were secured by certain property, plant and equipment 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:

	<b>2015</b>	2014
Fixed rate	<b>5.0% to 6.9%</b>	6.6% to 7.8%

## MANAGEMENT DISCUSSION AND ANALYSIS

### BUSINESS REVIEW

The Group mainly provides one stop solution which includes designing, manufacturing, and printing of paper-based packaging products to its customers which are mostly based in Jiangxi Province. Our products include flexo-printed cartons and offset-printed cartons of different sizes, shapes and design. The Group's 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. The Group has a production base which is located in Fengxin County, Yi Chun City of Jiangxi Province, the People's Republic of China ("the PRC"). The Group has received various awards and recognitions in respect of its quality management system, credit rating, business reputation and industry position.

With the increased production capacity (2 new printing production lines, 1 corrugated paperboard production line and 1 stone paper production line established in late 2014), the Group's turnover has achieved steady growth and its gross profit margin remained stable in 2015 as compared to the corresponding year amidst the increasing competitive market condition. The decline in net margin is mainly due to the impact of two once-off expenses, namely, loss on modification of convertible bonds and equity settled share option expenses.

In 2015, the Group expanded its customer base by extended the application of our stone paper to shopping bags for department stores. The Group will continue to look for opportunities to expand its customer base through collaboration in product development and marketing, as well as through referral by its existing customers.

In addition to develop the existing business actively, in order to maximise the return to shareholders, the Group is also committed to business diversification. On 17 November 2015, the Company entered into a share purchase agreement in relation to the acquisition of entire interest of Cable King Limited. Cable King Limited together with its subsidiaries is engaged in the development, distribution and operation of online gaming products in the PRC. The acquisition was approved by the Company's shareholders on 15 March 2016. Completion of the acquisition will be conditional upon the satisfaction of certain conditions and is currently expected to take place at the beginning of the second quarter of 2016.

### FINANCIAL REVIEW

The revenue for 2015 was approximately RMB615.4 million, representing an increase of approximately RMB123.9 million or approximately 25.2% as compared to that of approximately RMB491.5 million in 2014. The increase in revenue was mainly attributable to the substantial increase in sales volume from approximately 164.6 million square meter to approximately 206.2 million square meter, which was driven by increasing demand from existing customers and new orders placed by new customers in the PRC. All the sales of the Group were generated from the PRC, revenue from flexo-printed cartons and offset printed cartons represented about approximately 53.5% and 46.5% respectively of the total revenue of the Group as compared to that of approximately 54.1% and 45.9% respectively in 2014.

#### Revenue by products

	2015		2014	
	<i>RMB'000</i>	<i>% of Total</i>	<i>RMB'000</i>	<i>% of Total</i>
Flexo-printed cartons	<u>329,046</u>	<u>53.5</u>	<u>265,760</u>	<u>54.1</u>
Offset-printed cartons				
– Traditional paper-based cartons	<u>161,961</u>	<u>26.3</u>	<u>147,223</u>	<u>29.9</u>
– Stone-paper based cartons	<u>124,365</u>	<u>20.2</u>	<u>78,540</u>	<u>16.0</u>
Sub-total	<u>286,326</u>	<u>46.5</u>	<u>225,763</u>	<u>45.9</u>
Total	<u>615,372</u>	<u>100</u>	<u>491,523</u>	<u>100</u>

## Flexo-printed cartons

The Group's flexo-printed cartons targeted the huge customer market with food and beverage companies as its main target customer to provide products of good quality, load capacity and protection. Revenue from sales of flexo-printed cartons for 2015 was approximately RMB329.0 million (2014: approximately RMB265.8 million), accounted for approximately 53.5% (2014: approximately 54.1%) of our total revenue. The increase in approximately RMB63.2 million or approximately 23.8% was mainly contributed to the increase in sales orders received from our customers in the electronic products industry.

## Offset-printed cartons

The Group's offset-printed cartons include traditional paper-based cartons and stone paper based cartons. Revenue from sales of offset-printed cartons for the 2015 was approximately RMB286.3 million (2014: approximately RMB225.8 million), accounted for approximately 46.5% (2014: approximately 45.9%) of our total revenue. The increase in approximately RMB60.5 million or approximately 26.8% was mainly contributed from the increase in our sales of stone-paper based bags. The acceptance of our stone-paper based materials and recognition of our quality traditional offset-printed cartons has attracted more sales orders from our high-end customers in various industries.

## Turnover by product categories of our customers

	2015		2014	
	<i>RMB'000</i>	<i>% of Total</i>	<i>RMB'000</i>	<i>% of Total</i>
Food and beverages	<b>206,652</b>	<b>33.5</b>	204,049	41.5
Glass and ceramics articles	<b>71,212</b>	<b>11.6</b>	64,165	13.1
Metal hardware and chemical products	<b>90,549</b>	<b>14.8</b>	57,317	11.7
Bamboo articles	<b>44,836</b>	<b>7.3</b>	33,059	6.7
Department stores	<b>68,882</b>	<b>11.2</b>	–	–
Others	<b>133,241</b>	<b>21.6</b>	132,933	27.0
Total	<b><u>615,372</u></b>	<b><u>100</u></b>	<b><u>491,523</u></b>	<b><u>100</u></b>

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

The Group's main customers are manufacturers of food and beverages in the PRC. Revenue derived from food and beverages manufacturers was approximately RMB206.7 million (2014: approximately RMB204.0 million), representing approximately 33.5% (2014: approximately 41.5%) of the total turnover. The decrease in proportion of revenue from food and beverages manufacturers was mainly because while the demand for sophisticated printed packaging materials and design is increasing, the Group has captured more market share in department stores, electronic products and pharmaceutical products.

## Gross profit and gross profit margin

	2015		2014	
	<i>RMB'000</i>	<i>GP margin (%)</i>	<i>RMB'000</i>	<i>GP margin (%)</i>
Flexo-printed cartons	<u>65,862</u>	20.0	<u>54,210</u>	20.4
Offset-printed cartons				
– Traditional paper-based cartons	36,260	22.4	37,532	25.5
– Stone-paper based cartons	<u>46,387</u>	37.3	<u>25,536</u>	32.5
Sub-total	<u>82,647</u>	28.9	<u>63,068</u>	27.9
Total	<u>148,509</u>	24.1	<u>117,278</u>	23.9

The overall gross profit of the Group for 2015 was approximately RMB148.5 million, representing an improvement of approximately 26.6% or approximately RMB31.2 million as compared to approximately RMB117.3 million in 2014. Gross profit margin increased from approximately 23.9% for 2014 to approximately 24.1% for 2015.

The gross profit from flexo-printed cartons for 2015 was approximately RMB65.9 million, representing a growth of approximately 21.6% as compared to approximately RMB54.2 million in 2014. The gross profit margin for flexo-printed cartons decreased slightly from approximately 20.4% for 2014 to approximately 20.0% for 2015. This was mainly due to the slightly decrease in its average selling price.

The gross profit from offset-printed cartons for 2015 was approximately RMB82.6 million, representing a growth of approximately 30.9% as compared to approximately RMB63.1 million in 2014. The gross profit margin for offset-printed cartons increased from approximately 27.9% in 2014 to approximately 28.9% for 2015. The increase was mainly attributable to increase in sales of higher margin stone paper based cartons.

## OTHER REVENUE AND INCOME

Other revenue and income of the Group decreased by approximately 17.6% or approximately RMB2.1 million from approximately RMB11.9 million in 2014 to approximately RMB9.8 million in 2015. The decrease was mainly attributable to (i) the decrease in tax concession in relation to the partial refund of the enterprise income tax paid in the PRC by the local government. The enterprise income tax paid by our PRC subsidiary was significantly reduced in 2015 as compared to 2014 due to the reduction of tax rate from 25% to 15% after it has been qualified as a High and New Technology Enterprise in April 2014; and (ii) the tax concession was expired in the fourth quarter of 2015.

## SELLING AND DISTRIBUTION EXPENSES

Selling and distribution expenses of the Group increased by approximately 43.3% or approximately RMB8.8 million from approximately RMB20.3 million in 2014 to approximately RMB29.1 million in 2015. 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 increase in selling activities in order to cope with the new capacity from our new production lines, our selling and distribution expenses as a percentage of our total turnover increased from approximately 4.1% in 2014 to approximately 4.7% in 2015.

## **ADMINISTRATIVE EXPENSES**

Administrative expenses of the Group increased slightly by approximately 1.9% or approximately RMB0.5 million from approximately RMB26.9 million in 2014 to approximately RMB27.4 million in 2015. The increase was mainly due to an increase in salaries and wages amounted to approximately RMB4.5 million and this was offset by a reduction in listing expenses amounted to approximately RMB7.5 million which was recognized in 2014.

## **LOSS ON MODIFICATION OF CONVERTIBLE BONDS**

On 10 September 2015, the Group entered into a supplemental deed with an investor to amend the terms of the convertible bonds issued in 17 June 2015. Under the revised terms, there was a change in the fair value of the consideration that the investor will receive on conversion. Such change in fair value of approximately RMB7.0 million was charged to profit or loss (2014: nil).

## **FINANCE COSTS**

Finance costs of the Group increased by approximately 366.7% or approximately RMB6.6 million from approximately RMB1.8 million in 2014 to approximately RMB8.4 million in 2015. The increase was mainly attributable to the increase in bank borrowings, promissory note and convertible bonds during the year.

## **INCOME TAX EXPENSES**

Income tax expenses of the Group increased by approximately 8.6% or approximately RMB1.2 million from approximately RMB13.9 million in 2014 to approximately RMB15.1 million in 2015. The increase was attributable to the increase in profit from the Group's PRC subsidiary. The Group's effectively tax rate for 2015 was approximately 21.6% as compared to approximately 18.3% for 2014.

## **PROFIT FOR THE YEAR**

As a combined result of the factors discussed above, our profit for 2015 decreased by approximately RMB7.3 million or approximately 11.8% to approximately RMB54.8 million in 2015 from approximately RMB62.1 million in 2014. Our net profit margin decreased slightly from approximately 12.6% in 2014 to approximately 8.9% in 2015.

## **LIQUIDITY AND FINANCIAL RESOURCES**

The Group has maintained in healthy liquidity position with working capital financed by internal resources, bank borrowings, promissory note and convertible bonds. As at 31 December 2015, the cash and cash equivalents were approximately RMB266.2 million (2014: approximately RMB92.5 million), mainly denominated in Renminbi and Hong Kong Dollars. The Group's total borrowings which includes bank borrowings, promissory note and convertible bonds amounted to approximately RMB211.0 million (2014: approximately RMB11 million). As at 31 December 2015, approximately 58.8% (2014: 100%) of the total borrowings were denominated in Renminbi and approximately 41.2% (2014: nil) of the total borrowings 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 31 December 2015 and 31 December 2014 were approximately 60.1% and approximately 4.0% respectively.

On 19 June 2015, the Group issued promissory note and convertible bonds (“Note and Bonds”) with principal amount of HK\$80,000,000 and HK\$20,000,000 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% and 1% handling fee 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.

The net proceeds from the issue of Note and Bonds was approximately HK\$97.5 million. The Company shall use net proceeds for capital expenditure (including those related to mergers and acquisitions) and financing the general working capital.

## **INVENTORIES**

The inventories increased from approximately RMB17.9 million in 2014 to approximately RMB25.2 million in 2015, representing an increase in approximately 40.8% or approximately RMB7.3 million. The increase in inventories was mainly due to the increase in production capacity and sales volume during the year which has resulted in the need for the stock to be maintained at a higher level. The inventory turnover increased by 3 days to 17 days in 2015 as compared to 14 days in 2014.

## **TRADE RECEIVABLES**

As at 31 December 2015, the trade receivables amounted to approximately RMB147.5 million (2014: approximately RMB105.8 million). The increase is consistent with the increase in turnover. The trade receivables turnover days remained unchange at 64 days in 2015 which is within our normal trade terms.

## **TRADE PAYABLES**

As at 31 December 2015, the trade payables amounted to approximately RMB74.9 million (2014: approximately RMB76.9 million). The Group normally obtain a credit period of 60 days from the majority of its suppliers. The trade payables turnover days decreased by 9 days in 2015 to 52 days as compared to 61 days in 2014.

## **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 year ended 31 December 2015.

## **CAPITAL COMMITMENTS**

As at 31 December 2015, the Group’s capital commitments were approximately RMB68.4 million (2014: approximately RMB67.9 million). All the capital commitments were related to capital contribution payable to subsidiaries.

## **CONTINGENT LIABILITIES**

As at 31 December 2015, the Group did not have any material contingent liabilities or guarantees.

## **EVENTS AFTER REPORTING PERIOD**

On 17 November 2015, the Company entered into the share purchase agreement with an independent third party to acquire the entire equity interest in Cable King Limited and its subsidiaries at consideration of HK\$440,000,000. The consideration shall be satisfied by cash of HK\$20,000,000, issuance of consideration shares of approximately HK\$220,000,000 and promissory note of approximately HK\$200,000,000. Please refer to the circular of the Company dated 29 February 2016 for the details.

The proposed acquisition was approved by the shareholders of the Company on 15 March 2016. However, the completion of the proposed acquisition is still subject to the satisfaction of certain conditions.

## **PLEDGE OF ASSETS**

As at 31 December 2015, the Group pledged certain assets with a carry value of approximately RMB194.5 million (2014: approximately RMB15.6 million) as collateral for the Group's bills payable and bank borrowings.

## **INFORMATION ON EMPLOYEES**

As at 31 December 2015, the Group had a total of 527 full time employees, including the Executive Directors (2014: 458). Total staff costs (including Director's emoluments) were approximately RMB38.7 million, as compared to approximately RMB29.2 million for the year ended 31 December 2014. 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 bonus, 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.

## **OUTLOOK**

### **BUSINESS EXPANSION:**

The Group closely reviews its existing business and explores potential investment opportunities from time to time. In recent year, the mobile games business has experienced rapid growth in China with the unprecedented growth of smartphone and other mobile devices users. The mobile game market in China is expected to achieve a size of RMB45 billion in 2015, up 64% from the prior year. The growth is expected to continue in the coming years driven by the rapid growth of smartphone penetration. As such, the Group has planned to diversify its business into the high growth mobile game industry. On 17 November 2015, the Company entered into a share purchase agreement in relation to the acquisition of entire interest of Cable King Limited. Cable King Limited together with its subsidiaries is engaged in the development, distribution and operation of online gaming products in the PRC.

With the completion of such acquisition, it enables the Group to diversify its existing business portfolio into a new line of business with higher growth potential. Moreover, the new business could also broaden the Group's source of income and eventually enhance the Group's intrinsic market value for the shareholders.

### **PACKAGING BUSINESS**

The Group will continue 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 invest further in upgrading the existing production facilities with more advanced machinery and equipment to enhance our product quality, production capacity and efficiency in order to cope with the recent development trends in the high end packaging markets. High end consumer products manufacturer requires cartons with high resolution prints or graphics for packaging purposes. These production methods, with precise specifications and lamination requirements, will inevitably involve offset-printing method that would enhance the appeal of the underlying products. With the upgrading of existing facilities, it is expected that our product range will be widen to satisfy the ever changing customers' need.

## **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. The Share Option Scheme has a remaining term of approximately 8 years at the date of this announcement. 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.

The following table disclosed movements in the Company's share options granted under the Share Option Scheme during the year ended 31 December 2015:

Name and category of grantee	Date of grant (D/M/Y)	Exercisable period (D/M/Y)	Exercise price per Share HK\$	Outstanding at beginning of the year	Granted during the year	Exercised during the year	Lapsed/ cancelled during the year	Outstanding at end of the year
<b>Directors</b>								
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

## **FINAL DIVIDEND**

The Board did not recommend dividend for the year ended 31 December 2015.

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

On 17 November 2015, the Company has entered into a share purchase agreement to acquire Cable King Limited. The acquisition was approved by the Company's shareholders on 15 March 2016. The completion of the acquisition is conditional upon the satisfaction of certain conditions and is currently expected to take place at the beginning of the second quarter of 2016.

Save as disclosed above, there was no major acquisition and disposal of subsidiaries and associated companies during the year ended 31 December 2015.

## **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 year ended 31 December 2015.

## **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, save as disclosed below, the Company has complied with the CG Code throughout the year ended 31 December 2015.

### **CG CODE PROVISION A.2.1**

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.

## **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 confirmed that they have complied with the Model Code throughout the year ended 31 December 2015.

## **AUDIT COMMITTEE**

The Audit Committee comprises three Independent Non-executive Directors, with Mr. Ma Yiu Ho, Peter as the chairman. Other two members are Mr. Liu Da Jin and Mr. Wu Ping. Mr. Ma Yiu Ho, Peter, the chairman of the Company's Audit Committee, has considerable experience in accounting and financial management, which is in line with the requirement of Rule 3.10(2) of 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 and risk management systems of the Company.

The Audit Committee has reviewed the consolidated financial statements for the year ended 31 December 2015, including the accounting principles and practices adopted by the Company and the Group.

## **CLOSURE OF REGISTER OF MEMBERS**

The register of members will be closed from 18 May 2016 to 20 May 2016, both days inclusive, on which no transfer of shares will be effected. In order to determine the eligibility of shareholders to attend and vote at the annual general meeting, all transfer forms accompanied by the relevant share certificates must be lodged with the Company's Hong Kong branch share registrar, Tricor Investor Services Limited at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong by no later than 4:30 p.m. on 17 May 2016.

## **PUBLICATION OF INFORMATION ON THE WEBSITES OF THE STOCK EXCHANGE AND THE COMPANY**

The results announcement is required to be published on the websites of the Stock Exchange at [www.hkexnews.hk](http://www.hkexnews.hk) under "Latest Listed Company Information" and the designated website of the Company at <http://www.hs-pack.com>. The annual report of the Company for the year ended 31 December 2015 will be dispatched to the shareholders and published on the Stock Exchange's and the Company's websites in due course.

By Order of the Board  
**China Packaging Holdings Development Limited**  
**Chen Wei Wei**  
*Chairman*

Jiangxi Province, the PRC, 24 March 2016

*As at the date of this announcement, the executive directors of the Company are Mr. Chen Wei Wei (Chairman), Mr. Sun Shao Hua and Ms. Zheng Li Fang; and the independent non-executive directors of the Company are Mr. Liu Da Jin, Mr. Ma Yiu Ho, Peter and Mr. Wu Ping.*