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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)

CONNECTED TRANSACTION ISSUE OF PROMISSORY NOTE AND ADDITIONAL CONSIDERATION SHARES IN RELATION TO THE ACQUISITION OF THE ENTIRE ISSUED SHARE CAPITAL IN CABLE KING LIMITED

Reference is made to the announcements of the Company dated 17 November 2015, 27 April 2016 and 11 April 2017 and the circular of the Company dated 29 February 2016 in relation to the acquisition of the entire share capital in Cable King Limited.

The Board announces that the Actual Profit exceeds HK\$70,000,000 and therefore the Company shall pay to the Seller the Additional Consideration of HK\$180,000,000 in accordance with the Share Purchase Agreement.

On 23 May 2017, the Company entered into the Agreement with the Seller, pursuant to which it is agreed that the Additional Consideration will be settled (i) as to 90,000,000 by the issue of the Promissory Note; and (ii) as to HK\$90,000,000 by issue of 128,571,429 Additional Consideration Shares at the Issue Price of HK\$0.7 per Share.

Application will be made by the Company to the Stock Exchange for the listing of, and permission to deal in, the Additional Consideration Shares.

SPECIFIC MANDATE

The Additional Consideration Shares will be allotted and issued pursuant to the Specific Mandate to be sought from the Independent Shareholders at the EGM. The Additional Consideration Shares to be allotted and issued to the Seller or his nominee represent (i) approximately 11.15% of the existing issued share capital of the Company; and (ii) approximately 10.03% of the issued share capital of the Company as enlarged by the allotment and issue of the Additional Consideration Shares (assuming that there will be no change in the issued share capital of the Company between the dates of this announcement and the issue of the Additional Consideration Shares).

LISTING RULES IMPLICATIONS

As at the date of this announcement, the Seller, through Wealthy Achievers, is interested in 224,285,714 Shares, representing 19.45% of the existing issued share capital of the Company. Therefore, the Seller is a substantial shareholder of the Company and a connected person of the Company. Accordingly, the issue of the Promissory Note and the Additional Consideration Shares constitutes connected transaction for the Company under the Listing Rules and is subject to the reporting, announcement and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules. The Company will seek the Independent Shareholders' approval for the issue of the Promissory Note and the Additional Consideration Shares. The Seller and its associates (including Wealthy Achievers), and those Shareholders who are involved in, or interested in, the issue of the Promissory Note and the Additional Consideration Shares shall abstain from voting at the EGM.

GENERAL

An Independent Board Committee has been established to advise the Independent Shareholders on the issue of the Promissory Note and the Additional Consideration Shares. The Company has also appointed Gram Capital as an Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in this regard.

A circular containing, among other things, further details of the Agreement, the issue of the Promissory Note and the Additional Consideration Shares, letters from the Independent Board Committee and Gram Capital, and a notice convening the EGM will be dispatched to the Shareholders on or before 30 June 2017, as additional time is required for preparation of the relevant information to be included in the circular.

The issue of the Promissory Note and the Additional Consideration Shares is subject to the satisfaction of all the conditions as set out under the section headed "Conditions of the Issue of Promissory Note and Additional Consideration Shares" under "AGREEMENT" of this announcement. Therefore, Shareholders and potential investors of the Company are advised to exercise caution when dealing in the Shares.

BACKGROUND

Reference is made to the announcements of the Company dated 17 November 2015, 27 April 2016 and 11 April 2017 and the circular of the Company dated 29 February 2016 (“**Circular**”) in relation to the acquisition of the entire share capital in Cable King Limited.

Pursuant to the Share Purchase Agreement, the consideration for the entire shareholding in Cable King Limited shall be subject to adjustment based on the Actual Profit. If the Actual Profit is more than HK\$49,000,000, the Company shall pay the Seller an additional consideration based on the formula set out below, subject to a maximum amount of HK\$180,000,000.

Additional Consideration = Actual Profit x 9 – HK\$440,000,000

Based on the audited financial statements of the Target Group for the financial year ended 31 December 2016, the Actual Profit exceeds HK\$70,000,000 and therefore the Company shall pay the Seller the Additional Consideration of HK\$180,000,000.

Under the Share Purchase Agreement, the additional consideration will take the form of one or more of the following (i) cash; (ii) allotment and issuance of additional consideration shares of the Company at HK\$0.7 per share; and/or (iii) the issuance of an additional promissory note by the Company as further agreed by the Company and the Seller and shall be settled within 20 business days after the auditors of the Target Group issues the audited financial statements for the financial year ended 31 December 2016 or such other date as agreed by both parties to the Share Purchase Agreement.

AGREEMENT

Major terms of the Agreement are set out below:

Date

23 May 2017

Parties Involved

- (i) the Company; and
- (ii) the Seller.

The Group is principally engaged in the design, manufacture, printing and sale of paper-based packaging products and the research, development, distribution and operation of mobile gaming products.

Settlement of Additional Consideration

Pursuant to the Agreement, the Additional Consideration of HK\$180,000,000 shall be satisfied by the Company in the following manner on the fifth business day after the conditions set out in the paragraph headed “Conditions of the Issue of Promissory Note and Additional Consideration Shares” below are satisfied, or such other date as may be agreed between the Company and the Seller:

- (i) HK\$90,000,000 shall be settled by the Company by way of issue of the Promissory Note to the Seller; and
- (ii) HK\$90,000,000 shall be settled by way of allotment and issuance of Additional Consideration Shares to the Seller or his nominee.

Promissory Note

The principal terms of the Promissory Note are summarised as follows:

Issuer	:	the Company
Noteholder	:	the Seller
Maximum principal Amount	:	HK\$90,000,000
Interest	:	4% per annum payable in arrears every calendar year
Payment	:	payment shall be made in Hong Kong Dollars (HKD) to a designated bank account of the Seller.

- Maturity date : the date immediately following 2 years after the date of issue of the Promissory Note (“**Maturity Date**”)
- Early Redemption : The Company may at its sole discretion elect to repay all or part of the principal amount of the Promissory Note together with interest accrued thereon at any time prior to the Maturity Date.
- Assignment : neither party to the Promissory Note may assign or transfer any of its rights or obligations under the Promissory Note without the prior written consent of the other party thereto.

Additional Consideration Shares

The 128,571,429 Additional Consideration Shares to be allotted and issued to the Seller or his nominee represent (i) approximately 11.15% of the existing issued share capital of the Company; and (ii) approximately 10.03% of the issued share capital of the Company as enlarged by the allotment and issue of the Additional Consideration Shares (assuming that there will be no change in the issued share capital of the Company between the dates of this announcement and the issue of the Additional Consideration Shares).

The Additional Consideration Shares shall be allotted and issued pursuant to the Specific Mandate to be sought from the Independent Shareholders at the EGM and shall rank *pari passu* with the Shares in issue on the date of allotment and issuance including the rights to all dividends, distributions and other payments made or to be made for which the record date falls or after the date of such allotment and issuance.

The Issue Price of HK\$0.7 per Share was previously determined by the Company and the Seller under the Share Purchase Agreement. It represents:

- (i) a discount of approximately 11.39% to the closing price of HK\$0.79 per Share as quoted on the Stock Exchange on 17 November 2015, being the date of the Share Purchase Agreement;
- (ii) a discount of approximately 11.39% to the average closing price of approximate HK\$0.79 per Share as quoted on the Stock Exchange for the last five (5) trading days immediately prior to the date of the Share Purchase Agreement;

- (iii) a discount of approximately 70.83% to the closing price of HK\$2.40 per Share as quoted on the Stock Exchange on the date of the Agreement; and
- (iv) a discount of approximately 69.78% to the average closing price of approximate HK\$2.316 per Share as quoted on the Stock Exchange for the last five (5) trading days immediately prior to the date of the Agreement.

An application will be made by the Company to the Stock Exchange for the listing of, and permission to deal in, the Additional Consideration Shares.

Conditions of the Issue of Promissory Note and Additional Consideration Shares

The completion of the issue of the Promissory Note and the Additional Consideration Shares is conditional upon, among other things:

- (i) the Independent Shareholders in the EGM to be held approving the transaction contemplated under the Agreement, including the issue of the Promissory Note and the Additional Consideration Shares to the Seller pursuant to the terms and conditions of the Agreement; and
- (ii) the Stock Exchange granting the listing of, and permission to deal in, the Additional Consideration Shares.

In the event that the said conditions are not fulfilled by 30 October 2017 or such date as may be agreed among the Company and the Seller, the Agreement shall lapse and the Company and the Seller will further discuss the method of settlement of the Additional Consideration.

Seller's Undertaking

To further safeguard the interests of the Company in the VIE Contracts, the Seller has undertaken to the Company that subject to completion of issue of the Additional Consideration Shares having taken place:

- (a) he agrees that 65,000,000 Additional Consideration Shares ("**Undertaken Shares**") is subject to the undertaking and that he shall notify the Company and the Stock Exchange in writing if he intends to dispose of any of the Undertaken Shares (the "**Disposal**"). Such notice shall contain details of the Disposal, including but not limited to the number of Undertaken Shares to be sold (the "**Disposal Shares**"), his shareholding in the Company upon completion of the Disposal and, where applicable, details of the transferee(s);

- (b) he shall not, directly or indirectly, dispose of any of the Undertaken Shares unless either one of the following conditions is satisfied:
- (i) the Company has confirmed to the Seller in writing that the aggregate shareholdings of all shareholders who have provided undertakings similar to the Seller's undertaking to the Company from time to time (the "**Relevant PRC Shareholders**") would remain 50% or above (or such other percentage shareholding in the Company as required by applicable PRC laws and regulations from time to time as confirmed in writing by the Company's PRC lawyers to ensure "control" of the Company as defined in and for the purpose of the draft law on foreign investment published by the Ministry of Commerce of the PRC on 19 January 2015 ("**Draft Law**") so that the VIE Contracts continue to be in full force and effect) upon completion of the Disposal; or
 - (ii) transferee(s) of the Disposal Shares are PRC citizens and each of the transferees has provided to the Company (a) satisfactory evidence of his or her citizenship; and (b) an irrevocable undertaking to the Company in substantially the same form as the Seller's undertaking and any variations shall be made only with the consent of the Company;

and the Stock Exchange has confirmed in writing that it has no objection to the proposed Disposal. If so requested by the Stock Exchange, the Seller shall provide to the Stock Exchange a legal opinion issued by a PRC legal adviser for its assessment of the implication (if any) of the Disposal under the Draft Law.

The Seller's undertaking is additional to the Seller's previous undertaking to the Company as disclosed in the Company's circular dated 29 February 2016 and shall continue to be in full force and effect unless and until the earlier of (i) the Company is no longer required to comply with the relevant PRC law governing the VIE Contracts and the Stock Exchange has given its written consent for the termination of the Seller's undertaking, and (ii) the Seller ceases to hold any of the Undertaken Shares.

The Company undertook to the Stock Exchange that it shall at all times enforce the said undertaking provided by the Seller.

EFFECTS ON SHAREHOLDING STRUCTURE

The table below sets forth the shareholding structure of the Company (i) as at the date of this announcement; and (ii) upon allotment and issuance of the Additional Consideration Shares (assuming no outstanding share options having been exercised and the number of Shares owned by each of the Shareholders below between the date of this announcement and the date of issue of the Additional Consideration Shares remain unchanged):

	As at the date of this announcement		Immediately after issue of Additional Consideration Shares	
	<i>Number of Shares</i>	<i>Approximate %</i>	<i>Number of Shares</i>	<i>Approximate %</i>
Novel Blaze Limited Seller/Wealthy	408,000,000	35.38	408,000,000	31.83
Achievers Limited	224,285,714	19.45	352,857,143	27.53
Other public Shareholders	<u>520,954,245</u>	<u>45.17</u>	<u>520,954,245</u>	<u>40.64</u>
Total	<u>1,153,239,959</u>	<u>100.00</u>	<u>1,281,811,388</u>	<u>100.00</u>

REASONS FOR THE ISSUE OF PROMISSORY NOTE AND ADDITIONAL CONSIDERATION SHARES

Under the Share Purchase Agreement, the additional consideration will take the form of one or more of the following (i) cash; (ii) allotment and issuance of additional consideration shares of the Company at HK\$0.7 per share; and/or (iii) the issuance of an additional promissory note by the Company as further agreed by the Company and the Seller and shall be settled within 20 business days after the auditors of the Target Group issues the audited financial statements for the financial year ended 31 December 2016 or such other date as agreed by both parties to the Share Purchase Agreement.

In determining the manner of the settlement of the Additional Consideration, the Directors take into consideration (i) the amount of Additional Consideration to be paid by the Company; (ii) the financial position of the Company at that time; and (iii) the implication of the Code on Takeovers and Mergers. The Directors (excluding the independent non-executive Directors who will express their views after considering the opinion from Gram Capital) consider that 50% of the Additional Consideration will be settled by issue of the Promissory Note and the remaining Additional Consideration will be settled by the issue of the Additional Consideration Shares are fair and reasonable and in the interests of the Company and the Shareholders as a whole for the following reasons:

1. Based on the preliminary results announcement of the Company dated 30 March 2017, the Group has cash and bank balance of approximately HK\$374 million as at 31 December 2016. On the other hand, the Group's current liability was approximately HK\$663 million as at 31 December 2016 (including bank borrowings, promissory notes and convertible bonds collectively amounted to approximately HK\$303 million as at 31 December 2016) which may be due in 2017 and the Group also has cash requirements for its business operation and expansion in 2017. Further, most of the Group's cash is held by its PRC subsidiaries. As at 31 December 2016, the Group only had approximately cash of HK\$50,000,000 held by its offshore entities, out of which approximately HK\$22,000,000 shall be used to settle the special dividend declared and majority of the remaining offshore cash shall be used for settlement of the interest payable under the Company's issued notes and convertible bonds and the Group's offshore operating expenses. Given that additional transactional costs (such as withholding tax) will be incurred to transfer cash from the Group's PRC subsidiaries to the Company and taking into consideration the cash requirements of the Group in 2017, the Directors (excluding the independent non-executive Directors who will express their views after considering the opinion from Gram Capital) are of the view that it is better for the Group to reserve more cash and to settle the Additional Consideration using the Promissory Notes instead of cash on hand.
2. The Company considers that the settlement of 50% of the Additional Consideration by the Promissory Note is reasonable and preferable to settlement by way of cash, taking into account that the interest rate of 4% per annum under the Promissory Note is much lower than the interest rate for the bank borrowings. However, the Directors noted that the settlement of further Additional Consideration by issue of the promissory notes and/or the increase in bank borrowing may result in breach of certain financial covenants in the Company's issued notes and convertible bonds and therefore are of the view it is appropriate for half of the Additional Consideration to be settled by the Promissory Notes.

3. Further, the Company have considered raising funds by way of issue of new Shares. However, given that the Company has given the undertaking to the Stock Exchange the Company shall not issue any new Shares to any person(s) who are not PRC Shareholders unless the following conditions are satisfied (details of which are set out in the Company's circular dated 29 February 2016), it is difficult for the Company to raise fund by way of issue of new Shares.

LISTING RULES IMPLICATIONS

As at the date of this announcement, the Seller, through Wealthy Achievers, is interested in 224,285,714 Shares, representing 19.45% of the existing issued share capital of the Company. Therefore, the Seller is a substantial shareholder of the Company and a connected person of the Company. Accordingly, the issue of the Promissory Note and the Additional Consideration Shares constitutes connected transaction for the Company under the Listing Rules and is subject to the reporting, announcement and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules. The Company will seek the Independent Shareholders' approval for the issue of the Promissory Note and the Additional Consideration Shares. The Seller and its associates (including Wealthy Achievers), and those Shareholders who are involved in, or interested in, the issue of the Promissory Note and the Additional Consideration Shares shall abstain from voting at the EGM.

GENERAL

The EGM will be convened and held for the Independent Shareholders to consider, and if thought fit, to approve the issue of the Promissory Note and the grant of the Specific Mandate for the allotment and issue of the Additional Consideration Shares.

An Independent Board Committee has been established to advise the Independent Shareholders on the issue of the Promissory Note and the Additional Consideration Shares. The Company has also appointed Gram Capital as an Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in this regard.

A circular containing, among other things, further details of the Agreement, the issue of the Promissory Note and the Additional Consideration Shares, letters from the Independent Board Committee and Gram Capital, and a notice convening the EGM will be dispatched to the Shareholders on or before 30 June 2017, as additional time is required for preparation of the relevant information to be included in the circular.

The issue of the Promissory Note and the Additional Consideration Shares is subject to the satisfaction of all the conditions as set out under the section headed “Conditions of the Issue of Promissory Note and Additional Consideration Shares” under “AGREEMENT” of this announcement. Therefore, Shareholders and potential investors of the Company are advised to exercise caution when dealing in the Shares.

DEFINITIONS

In this announcement, unless the context otherwise requires, the following terms have the following meanings when used herein:

“Actual Profit”	the audited consolidated profit after tax of the Target Group (excluding the consolidation adjustment arising from the Acquisition) under Hong Kong Financial Reporting Standards for the financial year ended 31 December 2016
“Additional Consideration”	the additional consideration of HK\$180,000,000 payable by the Company to the Seller as adjusted based on the Actual Profit pursuant to the Share Purchase Agreement
“Additional Consideration Shares”	128,571,429 new Shares to be allotted and issued by the Company to the Seller or his nominee to settle part of the Additional Considerations
“Agreement”	the agreement dated 23 May 2017 entered into among the Company and the Seller
“associate(s)”	has the meaning ascribed to it under the Listing Rules
“Board”	the board of Directors
“Company”	China Packaging Holdings Development Limited (中華包裝控股發展有限公司), a company incorporated in the Cayman Islands with limited liability whose shares are listed on the Stock Exchange
“connected person(s)”	has the meanings ascribed to it under the Listing Rules
“Director(s)”	the director(s) of the Company

“EGM”	an extraordinary general meeting of the Company to be convened to consider and approve the issue of the Promissory Note and the Additional Consideration Shares
“Gram Capital” or “Independent Financial Adviser”	Gram Capital Limited, a licensed corporation to carry out Type 6 (advising on corporate finance) regulated activity under the SFO, being the independent financial adviser to the Independent Board Committee and the Independent Shareholders in respect of the Agreement and the transactions contemplated thereunder
“Group”	the Company and its Subsidiaries
“HK\$”, “HKD”	Hong Kong dollars, the lawful currency of Hong Kong
“Hong Kong”	the Hong Kong Special Administrative Region of PRC
“Independent Board Committee”	an independent board committee of the Board comprising all the independent non-executive Directors, namely Mr. Liu Da Jin, Mr. Ma Yiu Ho, Peter and Mr. Wu Ping
“Independent Shareholders”	Shareholders (other than the Seller and its associate (including Wealthy Achievers) and those Shareholders who are involved in, or interested in the issue of the Promissory Note and the Additional Consideration Shares who are not required to abstain from voting on the resolutions to be proposed at the EGM under the Listing Rules
“Issue Price”	HK\$0.7 per Share
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“PRC”	the People’s Republic of China excluding Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan for the purposes of this announcement
“Promissory Note”	the promissory note in the principal amount of HK\$90,000,000 to be issued by the Company to the Seller in satisfaction of part of the Additional Consideration

“RMB”	Renminbi, the lawful currency of the PRC
“Seller”	Mr. Peng Dongmiao
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
“Share Purchase Agreement”	the agreement dated 17 November 2015 entered into between the Company and the Seller in relation to the acquisition of the entire shareholding in Cable King Limited (as supplemented by a supplemental agreement dated 26 February 2016)
“Share(s)”	ordinary share(s) of HK\$0.01 each in the share capital of the Company
“Shareholder(s)”	holder(s) of Share(s)
“Specific Mandate”	a specific mandate to be sought from the Independent Shareholders at the EGM for the issue of the Promissory Note and the Additional Consideration Shares
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Target Group”	Cable King Limited and its subsidiaries
“Wealthy Achievers”	Wealthy Achievers Limited, an investment holding company wholly owned by the Seller
“VIE Contracts”	has the meaning as defined in the Company’s circular dated 29 February 2016

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

Jiangxi Province, the PRC, 23 May 2017

As at the date of this announcement, the Board comprises three executive Directors, namely Mr. Chen Wei Wei (Chairman), Mr. Sun Shao Hua and Ms. Zheng Li Fang, and three independent non-executive Directors, namely Mr. Liu Da Jin, Mr. Ma Yiu Ho, Peter and Mr. Wu Ping.