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

Annual Report 2014

Content

Corporate Information

BOARD OF DIRECTORS

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

BOARD COMMITTEES

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)

AUTHORIZED REPRESENTATIVES

Mr. Sun Shao Hua
Mr. Hu Chung Ming

AUDITORS

HLB Hodgson Impey 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 BANKER

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

EXECUTIVE DIRECTORS

Mr. Chen Wei Wei (陳衛偉), aged 31, is our Chairman and Executive Director. He was appointed on 13 December 2013. He is also the Chairman of the Nomination Committee. Mr. Chen is primarily responsible for the overall management, market and business development, product development, production and operation management of our Group. Mr. Chen has more than 11 years of experience in management, business development and operation of manufacturing industry. Mr. Chen joined our Group on 17 April 2009 as a deputy general manager and had been, responsible for sales and research and development, and became the general manager of our Group on 1 July 2013. He graduated from both Fuzhou Gongren Yeyu University (福州市工人業餘大學) and Fujian Institute of Hydraulic and Electrical Engineering (福建水利電力學校) in July 2002, majoring in computer and information management and powerplant and electric power system respectively.

Ms. Hu Li Yu (胡麗玉), aged 40, is our Executive Director. She was appointed on 13 December 2013. She is also a member of the Remuneration Committee. Ms. Hu is primarily responsible for overseeing our administration and human resources matters. Ms. Hu has approximately 17 years of experience in corporate management and the packaging industry. Ms. Hu joined our Group as a director on 23 August 2006. Ms. Hu obtained a Master of Business Administration degree from the Massachusetts Institute of Technology in July 2009.

Mr. Sun Shao Hua (孫少華), aged 43, is our founder and Executive Director. He was appointed on 13 December 2013. Mr. Sun is primarily responsible for the overall strategic planning and business development of our Group. Mr. Sun has approximately 15 years of experience in the packaging industry and corporate management. Mr. Sun established the business of our Group in 2006 and has been heading the Group since its incorporation. Mr. Sun was previously the standing director of the 7th China Packaging Federation Council (中國包裝聯合會第七屆理事會) in 2011. Mr. Sun was awarded the 5th Lake Poyang Printing Development Contribution Award (第五屆鄱陽湖(鴻聖)杯印刷發展貢獻獎) by the Association of Printing and Copying Industry in Jiangxi Province (江西省印刷複製業協會) in December 2011. Mr. Sun completed a postgraduate economics course at Jiangxi University of Finance and Economics (江西財經大學) in July 2005 and graduated from the Central Communist Party School Correspondence Institute (中共中央黨校函授學院) in December 2006, majoring in economic management. Mr. Sun completed the 2006 Chief Executive Course at Xiamen University School of Management in August 2007 and the GEM Financing and Private Fund Executive Course at Fudan University in April 2009.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Liu Da Jin (劉大進), aged 49, was appointed as an Independent Non-executive Director on 13 December 2013. Mr. Liu is also a member of the Audit Committee and the Nomination Committee and the chairman of the Remuneration Committee. Mr. Liu has been a non-practicing member of the Chinese Institute of Certified Public Accountants since June 1996. He has also been the consultant of the Xiamen City Economic Management Consultancy Association (廈門市經濟管理諮詢協會) since August 2008 and the council member of the Xiamen City Accounting Association (廈門市會計學會) since March 2005. Mr. Liu graduated from the Central University of Finance and Economics (中央財經大學) (originally named Central Institute of Finance and Banking 中央財政金融學院) in June 1989, majoring in accounting. He then obtained a postgraduate certificate from Xiamen University Postgraduate School in September 1992. Mr. Liu worked as a teaching assistant at Jimei Finance and Economics School (集美財經學校) from August 1984 to August 1987. Mr. Liu then served as the deputy director and instructor at the Department of Financial Management at Jimei College of Finance (集美財政專科學校) from July 1989 to August 1995. Mr. Liu worked as a certified accountant at Xiamen Jiyou Accounting Firm (廈門集友會計師事務所) from June 1995 to May 1999. Mr. Liu worked in various faculties of Jimei University (集美大學) since September 1995 and is currently the Associate Dean of its Faculty of Overseas Education.

Mr. Ma Yiu Ho, Peter (馬遙豪), 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 of Business Administration Degree 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 SAR Government's Audit Department. 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), Huisheng International Holdings Limited (stock code: 1340) and Sky Forever Supply Chain Management Group Limited (formerly known as Rising Power Group Holdings Limited) (stock code: 8047) since March 2010, February 2014 and July 2014, respectively, shares of these three companies are listed on the Stock Exchange.

Mr. Wu Ping (吳平), aged 52, was appointed as an Independent Non-executive Director on 13 December 2013. He is also a member of the Audit Committee, the Nomination Committee and the Remuneration Committee. Mr. Wu completed a monetary banking correspondence course at the Jiangxi University of Finance and Economics (江西財經大學) in July 1998. Mr. Wu obtained the intermediate level of finance qualification granted by the Ministry of Personnel of the PRC in November 2000. Mr. Wu held various positions in the Yichun branch and Fongxin branch of the China Construction bank from 1981 to 2012, including serving as the manager of the Credit Approval Commission of the Yichun branch, the manager of the Credit Approval Department of the Fengxin branch and the branch manager of the Fengxin branch.

SENIOR MANAGEMENT

Mr. Guo Xiu Peng (郭秀鵬), age 37, joined the Group in October 2008 as the Director of Production. He is responsible for the production and equipment management of the Group. In July 2000, he graduated in Jiangxi Normal University (江西師範大學) with a bachelor degree in Control Technology Engineering. He has over 9 years of experience in production management.

Mr. Li Jian Jie (李建捷), aged 42, joined the Group in March 2013 as the Director of Research and Development. He is responsible for the research, development and design of the Group. In July 1993, he completed a 2-year arts programme at Sanming Normal College (三明師範專科學校). He has over 9 years of experience in the design and advertising industry.

Mr. Hu Chung Ming (胡宗明), aged 42, joined the Group in August 2013 as the Chief Financial Officer and the Company Secretary of the Company. He is responsible for the planning and management of accounting, financial related matters and corporate reporting of the Group. In December 1996, he graduated in the University of Queensland, Australia, with a bachelor degree in Commerce. He is a member of the Australian Society of Certified Practising Accountants and a fellow member of the Hong Kong Institute of Certified Public Accountants. Prior to joining the Company, he had served international audit firms for three years and listed companies as financial controller and company secretary for more than 11 years. He is currently an independent non-executive director of Leyou Technologies Holdings Limited (formerly known as Sumpo Food Holdings Limited) (stock code: 1089), the shares of which are listed on the Stock Exchange.

Dear Shareholders,

On behalf of the Board of Directors (the "Board"), I am pleased to present the annual results of China Packaging Holdings Development Limited (the "Company") and its subsidiaries (collectively the "Group") for the year ended 31 December 2014.

ANOTHER OUTSTANDING YEAR AND MARKED WITH REMARKABLE ACHIEVEMENTS

2014 was a fruitful and successful year for the Group. During the year, we have achieved outstanding performance in many aspects. Both flexo-printed cartons and offset-printed cartons recorded exceptional results, as shown by a record increase in net profit and a strong momentum of growth. Besides, we have further strengthened our market position in China's paper-based packaging markets, which laid a solid foundation for the future business development.

In 2014, our Group achieved a turnover of approximately RMB491.5 million, (2013: RMB383.0 million), up by approximately 28.3% as compared with the same period last year. Profit attributable to equity holders of the Company surged by approximately 40.1% to approximately RMB62.1 million (2013: RMB44.3 million).

During the year, in view of the increasing demand of paper-based packaging products in the People's Republic of China (the PRC), the Group added two production lines for printing cartons, one production line for manufacturing corrugated paperboard and one production line for manufacturing stone paper. By the end of the year, our annual production capacity has reached 92.5 million square meters of corrugated paperboards, 185.1 million square meters of corrugated paper-based packaging products and 50 million square meters of stone paper.

Over the years, we have strived to be a leading manufacturer of high quality packaging products and a pioneer in the research and development of new production materials. In recognizing of our Research and Development ("R&D") capabilities and in particular, our achievements in developing stone paper, a new environmental-friendly material, in the packaging industry, on 9 April 2014, Hong Sheng (Jiangxi) Color Printing Packaging Co. Ltd. ("Hongsheng"), a subsidiary of the Company in the PRC, was 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. With the support of national policy, the Group is well positioned to make further breakthroughs in the years ahead.

Furthermore, in recognizing our achievement and contribution to the society, on 10 January 2015, the Secretary of Municipal Party Committee of Yi Chun visited our Fengxin factory along with other officials of the local government. The visitors were highly impressed by our dedication in implementing the government policy on clean production, energy saving and emission reduction. They have also made positive comments to our introduction of stone paper, a "greener" packaging material developed by the Group that can replace other packaging materials such as plastic, glass and metal. With the support and encouragement of the local government, we will continue to explore and promote the possible application of stone paper.

PROSPECT

Looking ahead, our Group will continue to increase our capacity, improve our production efficiency as well as improving and upgrading our existing production facilities. To capture the market opportunities, we will expand our distribution network, strengthen the cooperation with customers and understand the different requirements of our customers and the diversified market demand, thereby improving the product mix in order to increase sales.

Furthermore, our Group will continue to make great efforts to improve our R&D capability with a view to developing new materials and applications for our product. We will maintain sustainable business growth through organic growth, selective acquisition and business cooperation, while stepping up our marketing activities to enhance the reputation of our Group. We are confident that better performance can be achieved through solid progress in market expansion.

APPRECIATION

On behalf of the Group, I wish to express my gratitude to all employees and shareholders for their continued support and trust over the years. The Group is full of confidence in reaching new heights of success in the years to come. We will spare no endeavor to promote the growth of both the enterprise and employees and generate greater rewards for our shareholders.

China Packaging Holdings Development Limited
Chen Wei Wei
Chairman and Executive Director

Jiangxi Province, the PRC, 23 March 2015

The Board is committed to maintaining a good standard of corporate governance practices and business ethics in the firm belief that they are essential for maintaining and promoting investors' confidence and maximizing shareholders' returns. The Board reviews its corporate governance practices from time to time in order to meet the rising expectations of shareholders and comply with the increasingly stringent regulatory requirements, and to fulfill its commitment to excellence in corporate governance.

The Company has adopted the code provisions in the Corporate Governance Code (the "CG Code") as set out in Appendix 14 to the Listing Rules as its own code of corporate governance. The Board considers that up to the date of this annual report, in the opinion of the Board, saved as deviation from code provision A.2.1 (see section "Chairman and Chief Executive" below), the Company has complied with the CG Code. The Company will continue to enhance its corporate governance practices appropriate to the conduct and growth of its business and to review its corporate governance practices from time to time to ensure they comply with the evolving regulatory requirements and to meet the rising expectations of the shareholders and other stakeholders.

CORPORATE GOVERNANCE PRACTICES

(A) Board of Directors

Responsibilities and Delegation

The Board is responsible for the leadership and control of the Company, overseeing the Group's businesses, strategic decisions, internal control, risk management systems and monitoring the performance of the senior management. The management is responsible for the daily operations of the Group under the leadership of the Chairman. The Directors have the responsibility to act objectively in the interests of the Company.

The Board has delegated various responsibilities to the Board Committees including the Audit Committee, the Remuneration Committee and the Nomination Committee. Further details of these Committees are set out below in section B of this corporate governance report.

Board Composition

The Board members during the year ended 31 December 2014 and up to the date of this report are as follows:

Executive Directors:

Mr. Chen Wei Wei	Chairman of the Board and Member of the Nomination Committee
Ms. Hu Li Yu	Member of the Remuneration Committee
Mr. Sun Shao Hua	

Independent Non-Executive Directors:

Mr. Liu Da Jin	Chairman of the Remuneration Committee, Member of the Audit Committee and Nomination Committee
Mr. Wu Ping	Chairman of the Nomination Committee, Member of the Audit Committee and Remuneration Committee
Mr. Ma Yiu Ho, Peter	Chairman of the Audit Committee

The Board currently comprises three Executive Directors and three Independent Non-executive Directors from different business and professional fields. The profiles of each Director are set out in the "Biographical Details of Directors and Senior Management" section in this annual report. The Directors, including the Independent Non-executive Directors, have brought a wide spectrum of valuable business experience, knowledge and professionalism to the Board for its efficient and effective delivery of the Board functions.

The Board has adopted a board diversity policy setting out the approach to achieve diversity on the Board. The Company considered diversity of board members can be achieved through consideration of a number of aspects, including but not limited to gender, age, cultural and educational background, professional experience, skills and knowledge. All Board appointments will be based on meritocracy, and candidates will be considered against objective criteria, having due regard for the benefits of diversity on the board.

The Company has received annual confirmation from each of the Independent Non-executive Directors of his independence pursuant to Rule 3.13 of the Listing Rules. The Company considers all of the Independent Non-executive Directors are independent.

Board Meetings

The Board is scheduled to meet regularly at least four times a year at approximately quarterly intervals, to discuss the overall strategy as well as the operation and financial performance of the Group. Ad-hoc meetings will also be convened when necessary. Such Board meetings involve the active participation, either in person or through other electronic means of communication, of a majority of Directors.

Agenda and Board papers together with all appropriate, complete and reliable information will be provided to all the Directors before meetings. All the Directors will be provided with sufficient resources to discharge their duties, and, upon reasonable request, the Directors will be able to seek independent professional advice in appropriate circumstances, at the Company's expenses. All Directors will have the opportunity to include matters in the agenda for board meetings. The company secretary of the Company is responsible to keep the minutes of board meetings and meetings of Board committees. All minutes are open for inspection by any Director at reasonable time on reasonable notice.

For the financial year ended 31 December 2014, five Board meetings were held.

The Company's Articles of Association contain provisions requiring Directors to abstain from voting and not to be counted in the quorum at meetings for approving transactions in which such Directors or any of their associates have a material interest. According to current Board practices, any material transaction, which involves a conflict of interests for a substantial shareholder or a Director, will be considered and dealt with by the Board at a duly convened Board meeting.

Chairman and Chief Executive

The Company is aware of the requirement under paragraph A.2.1 of the CG Code that the roles of chairman and chief executive should be separated and should not be performed by the same individual. The Company does not separately have any officer with the title of "chief executive". 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 will meet regularly to consider major matters affecting the operations of the Group. 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 and chief executive. 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.

Appointments, Re-election and Removal of Directors

Each of the Executive Directors has entered into a service contract with the Company for an initial fixed term of three years commencing from the Listing Date renewable automatically until terminated by not less than three months' notice in writing served by either party on the other expiring at the end of the initial term or any time thereafter. All of their appointments are subject to retirement by rotation and re-election in accordance with the Articles of Association of the Company.

Each of the Independent Non-executive Directors has entered into a letter of appointment with our Company on 13 December 2013. Each letter of appointment is for an initial term commencing on the date of the letter of appointment and shall continue thereafter subject to a maximum of three years unless terminated by either party giving at least one month's notice in writing. All of their appointments are subject to retirement by rotation and re-election in accordance with the Articles of Association of the Company.

In accordance with the Company's Articles of Association, all Directors shall be subject to retirement by rotation at least once every three years and any new Director appointed to fill a causal vacancy shall submit himself/herself for re-election by shareholders at the first general meeting after appointment. In accordance with the Articles of Association, Mr. Chen Wei Wei and Mr. Liu Da Jin will retire and, being eligible, will offer themselves for re-election at the forthcoming AGM of the Company.

Training Induction and Continuing Development of Directors

Directors keep abreast of responsibilities as a Director of the Company and of the conduct, business activities and development of the Company.

Each newly appointed Director will receive formal, comprehensive and tailored induction on the first occasion of his/her appointment to ensure appropriate understanding of the business and operations of the Company and full awareness of director's responsibilities and obligations under the Listing Rules and relevant statutory requirements.

Directors are continually updated on developments in the statutory and regulatory regime and the business environment to facilitate the discharge of their responsibilities. The Directors have provided to the Company their records of continuous professional development during the year ended 31 December 2014.

During the year ended 31 December 2014, all Directors have attended training courses and read articles and materials in relation to corporate governance, Listing Rules update or financial markets update arranged by professional firms/institutions. Besides, the company secretary also conducted briefings on corporate governance, directors' duties and responsibilities and provided materials on Listing Rules amendments to all Directors for their reference.

Model Code for Securities Transactions

The Company has adopted the Model Code as set out in Appendix 10 to the Listing Rules. Following a specific enquiry, all the Directors confirmed that they have complied with the Model Code throughout the year ended 31 December 2014.

When the Company is aware of any restricted period for dealings in the Company's securities, the Company will notify its Directors in advance.

Non-Competition Undertakings

The Independent Non-executive Directors have also reviewed the confirmation given by Mr. Sun Shao Hua and Novel Blaze Limited, being controlling shareholders of the Company, in respect of each of their compliance with the non-competition undertakings as disclosed in the prospectus of the Company dated 27 December 2013.

(B) Board Committees

The Board has established three committees, namely the Audit Committee, Nomination Committee and Remuneration Committee, for overseeing particular aspects of the Company's affairs. All Board committees of the Company are established with defined written terms of reference. The terms of reference of the Board committees are posted on the websites of the Company and the Stock Exchange.

The majority of the members of each Board committee are Independent Non-executive Directors.

Board committees are provided with sufficient resources to discharge their duties and, upon reasonable request, are able to seek independent professional advice in appropriate circumstances at the Company's expense.

Audit Committee

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. None of the members of the Audit Committee is a former partner of the Company's existing external auditors.

The Audit Committee has reviewed the Company's financial statements and the Group's consolidated financial statements for the year ended 31 December 2014 and the interim financial statements for the six months ended 30 June 2014, including the accounting principles and practices adopted by the Company and the Group.

The Audit Committee held two meetings during the year ended 31 December 2014, of which both meetings with external auditors' presence, and all members of the Audit Committee attended the meetings. At the meetings, the members reviewed the financial reporting and compliance procedures, the report of the internal auditor on the Company's internal control and risk management systems and processes, and the re-appointment of the external auditors. No major issue on the internal control system of the Group has been identified.

The Company had established a whistleblowing policy and system for employees to raise concerns of possible improprieties where all concerns are addressed to the Audit Committee.

Remuneration Committee

The primary duties of the Remuneration Committee are to make recommendations to the Board on the overall remuneration policy and structure relating to our Directors and senior management and to ensure none of the Directors determine their own remuneration. The emoluments of Executive Directors are determined based on their skills, knowledge, individual performance as well as contributions, the scope of responsibility and accountability of such Directors, taking into consideration the Company's performance and the prevailing market conditions. The remuneration policy of Independent Non-executive Directors is to ensure that they are adequately compensated for their efforts and time dedicated to the Company's affairs including their participation in their respective Board committees. The emoluments of Independent Non-executive Directors are determined with reference to their skills, experience, knowledge, duties and market trends. The Remuneration Committee consists of two Independent Non-executive Directors, namely Mr. Liu Da Jin (Chairman) and Mr. Wu Ping and one Executive Director, namely Ms. Hu Li Yu.

For the year ended 31 December 2014, one meeting was held and all members attended the meeting.

Nomination Committee

The primary duties of the Nomination Committee are to review the structure, size and composition of the Board on regular basis; to identify individuals suitably qualified to become Board members; to assess the independence of Independent Non-executive Directors; and to make recommendations to the Board on relevant matters relating to the appointment or re-appointment of Directors. The Nomination Committee consists of two Independent Non-executive Directors, namely Mr. Liu Da Jin and Mr. Wu Ping and one Executive Director, namely Mr. Chen Wei Wei (Chairman).

When identifying suitable candidates for directorship, the Nomination Committee will carry out the selection process by making reference to the skills, experience, education background, professional knowledge, personal integrity and time commitments of the proposed candidates, and also the Company's needs and other relevant statutory requirements and regulations required for the positions. All candidates must be able to meet the standards as set forth in Rules 3.08 and 3.09 of the Listing Rules. A candidate to be appointed as an Independent Non-executive Director should also meet the independence criteria set out in Rule 3.13 of the Listing Rules. Qualified candidates will then be recommended to the Board for approval.

The Nomination Committee held one meeting during the year ended 31 December 2014 and all members of the Committee attended the meeting.

The attendance of individual members of the Board and other Board Committees meetings for the financial year ended 31 December 2014 is set out in the table below:

	Meeting attended/held			
	Board	**Audit Committee**	**Remuneration Committee**	**Nomination Committee**
Executive Directors				
Chen Wei Wei	5/5	N/A	N/A	1/1
Sun Shao Hua	5/5	N/A	N/A	N/A
Hu Li Yu	5/5	N/A	1/1	N/A
Independent non-executive Directors				
Liu Da Jin	5/5	2/2	1/1	1/1
Wu Ping	5/5	2/2	1/1	1/1
Ma Yiu Ho, Peter	5/5	2/2	N/A	N/A

(C) Accountability and Audit

Directors' Responsibility in respect of the Financial Statements

The Directors are responsible for overseeing the preparation of financial statements for the year ended 31 December 2014 with a view to ensuring that such financial statements give a true and fair view of the state of affairs of the Group and of the results and cash flows for that period. The Company's accounts are prepared in accordance with all relevant statutory requirements and suitable accounting standards. The Directors are responsible for ensuring that appropriate accounting policies are selected and applied consistently; judgments and estimates made are prudent and reasonable; and the financial statements are prepared on a going concern basis.

Management had provided monthly updates to Directors for giving a balanced and understandable assessment of the Company's performance, position and projects to enable the Directors to discharge their duties.

The Board is not aware of any material uncertainties relating to the events or conditions which may cast significant doubt over the Group's ability to continue as a going concern. Accordingly, the Board has continued to adopt the going concern basis in preparing the financial statements.

Auditor's Remuneration

For the year ended 31 December 2014, the analysis of the remuneration payable to the external auditor of the Company, HLB Hodgson Impey Cheng Limited, in respect of audit services and non-audit services is set out below:

	Amount (RMB'000)
Audit services	**750**
Non-audit services	**–**
Total	**750**

The Audit Committee will recommend the reappointment of HLB Hodgson Impey Cheng Limited for audit service, and consider the engagement of the non-audit services to ensure the independence and objectivity of audit service.

(D) Internal Control

The Board is responsible for the internal control of the Group and for reviewing its effectiveness.

Procedures have been designed to safeguard the assets of the Company and ensure maintenance of proper accounting records for the provision of reliable financial information for internal use or for publication, ensure compliance of applicable laws, rules and regulations.

After reviewing the effectiveness of the Group's internal control system, the Board considers that the internal control system is effective and adequate for the Group as a whole. The Board further considers that (i) there was no issue relating to the material controls, including financial, operational and compliance controls and risk management functions, of the Group; and (ii) that there were adequate staff with appropriate qualifications and experience, resources and budget of its accounting and financial reporting function, and adequate training programmes have been provided for the year ended 31 December 2014.

(E) Company Secretary

The Board appoints its Company Secretary in accordance with the Company's Articles of Association and in compliance with the requirements of the Listing Rules. Biographical details of the current Company Secretary is set out in the section headed "Biographical Details of Directors and Senior Management" on page 3 to 4 of this annual report. The Company Secretary has complied with the professional training requirement as set out in the Rule 3.29 of the Listing Rules during the year ended 31 December 2014.

(F) Shareholders' Rights

The Board welcomes shareholders to present their views and shareholders may at any time submit their questions and concerns about the Group. Enquiries may be put to the Board or senior management by contacting the Company Secretary through our shareholders' email at info@hs-pack.com or by phone at 852-3468 3666 or directly by raising questions at the general meeting of the Company. Shareholder(s) holding not less than one-tenth of Company's paid up capital may request the Board to convene an extraordinary general meeting. The objects of the meeting must be stated in the related requisition deposited at the Company's registered office and addressing to the Company Secretary at the Company's principal place of business in Hong Kong. The extraordinary general meeting will be held within 2 months after the deposition of such requisition.

To safeguard shareholders' interests and rights, a separate resolution is proposed for each substantially separate issue at general meetings, including the election of individual Directors.

All resolutions put forward at general meetings will be voted on by poll pursuant to the Listing Rules and poll results will be posted on the websites of the Company and of the Stock Exchange after each general meeting.

Any Shareholder may appoint a proxy or representative to attend the general meeting, and they are entitled to exercise the same voting rights in the meeting.

(G) Investor Relations and Communication with Shareholders

The Company considers that effective communication with shareholders is essential for enhancing investor relations and investor understanding of the Group's business performance and strategies. To promote effective communication, the Company maintains a website at http://www.hs-pack.com, where up-to-date information and updates on the Company's business operations and developments, financial information, corporate governance practices and other information are posted.

The Company endeavours to maintain an on-going dialogue with its shareholders and in particular, through AGMs or other general meetings to communicate with the shareholders. Shareholders are encouraged to participate in general meetings or to appoint proxies to attend and vote at meetings for and on their behalf.

The forthcoming AGM of the Company will be held on 28 May 2015. The notice of AGM will be sent to shareholders at least 20 clear business days before the AGM.

Constitutional Documents

There was no change in the constitutional documents of the Company during the year. The latest version of the Memorandum and Articles of Association of the Company is posted on the Company's website.

Management Discussion and Analysis

BUSINESS REVIEW

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

On 9 April 2014, Hong Sheng (Jiangxi) Color Printing Packaging Co. Ltd. (鴻聖（江西）彩印包裝實業有限公司)* ("Hongsheng"), a PRC subsidiary of the Group, 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. 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%.

On 6 May 2014, the Group has established a new PRC subsidiary, Jiangxi Hongyu New Materials Environmental Friendly Paper Co. Ltd. (江西鴻禹新材料環保紙業有限公司)* ("Hongyu") with a registered capital of RMB60 million. It is principally engaged in the manufacture and sales of stone paper and stone-paper based products.

During the year, the Group has also established 4 new production lines (2 new production lines in printing cartons, 1 new production line in manufacturing of corrugated paperboard and 1 new production line in manufacturing of stone paper) and a new production block at its production base in Fengxin to cope with the ongoing demand for both corrugated and high-end packaging products. With the new production lines, the total annual production capacity has reached 92.5 million square meters of corrugated paperboards, 185.1 million square meters of corrugated paper-based packaging products and 50 million square meters of stone paper.

FINANCIAL REVIEW

TURNOVER

The turnover for the year ended 31 December 2014 was approximately RMB491.5 million, representing an increase of approximately RMB108.5 million or approximately 28.3% as compared to that of approximately RMB383.0 million in 2013. The increase in turnover was mainly attributable to the substantial increase in sales volume from approximately 133.5 million square meters to approximately 164.6 million square meters, which was driven by increasing demand from existing customers and new orders placed by new customers. All the sales of the Group were generated from the PRC, turnover from flexo-printed cartons and offset-printed cartons represented about approximately 54.1% and 45.9% respectively of the total turnover of the Group as compared to that of approximately 60.8% and 39.2% respectively in 2013.

Turnover by products

	2014		2013	
	RMB'000	**% of Total**	RMB'000	% of Total
Flexo-printed cartons	**265,760**	**54.1%**	232,766	60.8%
Offset-printed cartons				
– Traditional paper-based cartons	**147,223**	**29.9%**	133,201	34.8%
– Stone-paper based cartons	**78,540**	**16.0%**	17,082	4.4%
Total	**491,523**	**100%**	383,049	100%

* Unofficial transliteration from Chinese name for identification purposes only.

Flexo-printed cartons

The Group's flexo-printed cartons targeted the huge consumer market with food and beverage companies as its main target customer to provide products of good quality, load capacity and protection. It contributes to approximately 54.1% of the total turnover of the Group for 2014. For 2014, turnover derived from flexo-printed cartons increased by approximately 14.2% to approximately RMB265.8 million (2013: RMB232.8 million) when comparing to 2013.

To ensure an adequate supply of quality raw materials for our flexo-printed cartons, we will continue our research in the production of quality corrugated paperboards. Currently, the Group owns 15 utility model patents which enable us to upgrade our production line of corrugated paperboards.

Offset-printed cartons

The Group's offset-printed cartons include traditional paper-based cartons and stone paper based cartons. For 2014, turnover derived from offset-printed cartons increased by approximately 50.2% to approximately RMB225.8 million (2013: RMB150.3 million) when compared to 2013, amongst which turnover of the traditional paper-based cartons accounted for approximately 65.2% (2013: 88.6%) and turnover of stone-paper based cartons accounted for approximately 34.8% (2013: 11.4%). The significant growth in offset printed cartons is mainly due to the full year contribution of the new stone-paper based cartons which was launched in August 2013. This stone paper carton is a new environmental friendly material which targeted higher-end products such as gifts and fragile products.

Turnover by product categories of our customers

	2014		2013	
	RMB'000	**% of Total**	RMB'000	% of Total
Food and beverage	**204,049**	**41.5%**	183,105	47.8%
Glass and ceramics articles	**64,165**	**13.1%**	59,583	15.6%
Metal hardware and chemical products	**57,317**	**11.7%**	39,475	10.3%
Bamboo articles	**33,059**	**6.7%**	30,021	7.8%
Others	**132,933**	**27.0%**	70,865	18.5%
Total	**491,523**	**100%**	383,049	100%

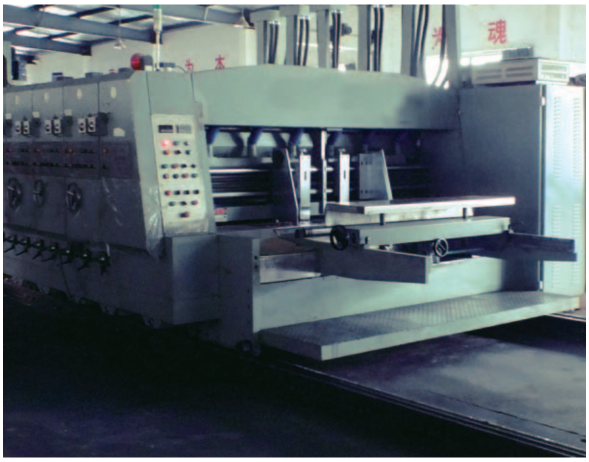
Note: Other products mainly include stationary, energy and electronic products, textile and pharmaceutical products.

The Group's main customers are manufacturers of food and beverage in the PRC. Revenue derived from food and beverage manufacturers was approximately RMB204 million, representing approximately 41.5% of the total turnover in 2014 as compared to approximately RMB183.1 million and approximately 47.8% of the total turnover in 2013. The demand for more sophisticated printed packaging materials and design is expected to grow due to the robust growth in the economy and the rising living standard of the PRC. The Group expects to capture a larger market share of higher value products in the coming years following the commencement of operation of new production lines in 2014.

The Group will continue to dedicate efforts in the research and development of new products, new materials and technological improvement to enhance its profits.

GROSS PROFIT AND GROSS PROFIT MARGIN

	2014		2013	
	RMB'000	**GP margin**	RMB'000	GP margin
Flexo-printed cartons	**54,210**	**20.4%**	48,433	20.8%
Offset-printed cartons				
– Traditional paper-based cartons	**37,532**	**25.5%**	35,533	26.7%
– Stone-paper based cartons	**25,536**	**32.5%**	5,640	33.0%
Total	**117,278**	**23.9%**	89,606	23.4%



The overall gross profit of the Group for the year ended 31 December 2014 was approximately RMB117.3 million, representing an improvement of approximately 30.9% or approximately RMB27.7 million as compared to approximately RMB89.6 million in 2013. Gross profit margin increased from approximately 23.4% for 2013 to approximately 23.9% for 2014.

The gross profit from flexo-printed cartons for 2014 was approximately RMB54.2 million, representing a growth of approximately 12.0% as compared to approximately RMB48.4 million in 2013. The gross profit margin for flexo-printed cartons decreased slightly from approximately 20.8% for 2013 to approximately 20.4% for 2014. This was mainly due to the slight increase in our raw material cost.

The gross profit from offset-printed cartons for 2014 was approximately RMB63.1 million, representing an increase of approximately 53.2% as compared to approximately RMB41.2 million in 2013. This was due to the increase in sales of higher margin stone-paper based cartons.

OTHER REVENUE AND INCOME

Other revenue and income of the Group increased by approximately 33.7% or approximately RMB3.0 million from approximately RMB8.9 million in 2013 to approximately RMB11.9 million in 2014. The increase in other revenue and income was mainly contributed by the tax concession in respect of partial refund of value added tax and enterprise income tax paid in the PRC offered by the local government. Higher sales and profit before tax, based on which value added tax and enterprise income tax were calculated, has resulted in higher tax concession for 2014.

SELLING AND DISTRIBUTION EXPENSES

Selling and distribution expenses of the Group increased by approximately 28.5% or approximately RMB4.5 million from approximately RMB15.8 million in 2013 to approximately RMB20.3 million in 2014. The selling and distribution expenses as a percentage of our total revenue remained unchanged at approximately 4.1% in 2014. This increase was consistent with the increase in sales activities which resulted in higher distribution and delivery costs as well as sales commission and salary to sales staff.

ADMINISTRATIVE EXPENSES

Administrative expenses of the Group increased by approximately 23.4% or approximately RMB5.1 million from approximately RMB21.8 million in 2013 to approximately RMB26.9 million in 2014. The increase was primarily due to the increase in general office expenses, increase in staff costs and the recognition of listing expenses incurred in 2014.

FINANCE COSTS

Finance costs of the Group increased by approximately 63.6% or approximately RMB0.7 million from approximately RMB1.1 million in 2013 to approximately RMB1.8 million in 2014. The increase was mainly attributable to the increase in our short term interest bearing bank loans during the year.

INCOME TAX EXPENSES

Income tax expenses of the Group decreased by approximately 10.3% or approximately RMB1.6 million from approximately RMB15.5 million in 2013 to approximately RMB13.9 million in 2014. 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. 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%. The Group's effective tax rate for 2014 was approximately 18.3% as compared to approximately 25.9% for 2013.

PROFIT FOR THE YEAR

As a combined result of the factors discussed above, our profit for 2014 increased by approximately RMB17.8 million or approximately 40.1% from approximately RMB44.3 million in 2013 to approximately RMB62.1 million in 2014. Moreover, our net profit margin also increased from 11.6% in 2013 to 12.6% in 2014.

FINAL DIVIDEND

The Board does not recommend the payment of a final dividend for the year ended 31 December 2014.

LIQUIDITY AND FINANCIAL RESOURCES

As at 31 December 2014, the cash and bank balances amounted to approximately RMB92.5 million (2013: RMB45.8 million) which were mainly denominated in Renminbi and Hong Kong Dollars. The Group's total bank borrowings amounted to approximately RMB11.0 million (2013: RMB21.2 million) which were all denominated in Renminbi. The Group's gearing ratio is calculated as total borrowings, which is the summation of bank borrowings and amount due to a director, divided by total equity. The gearing ratio of the Group as at 31 December 2013 and 2014 were approximately 17.3% and 4.0% respectively.

The Group considers its financial resources were mainly derived from the net cash inflows from operating activities and net proceeds from issue of ordinary shares in 2014. Taking into consideration the existing financial resources of the Group, it is anticipated that the Group should have adequate working capital to support its operations and development requirements.

INVENTORIES

The value of inventory increased from approximately RMB10.8 million in 2013 to approximately RMB17.9 million in 2014, that means an increase of approximately 65.7% or approximately RMB7.1 million. However, we managed to reduce the inventory turnover day from 17 days in 2013 to approximately 14 days in 2014. The reduction was made possible due to adoption of inventory control. As we expect a downward trend in the market price of raw paper and corrugated paperboards in 2014 and to avoid any impairment loss, the Group's inventory has been reduced to a level which is just sufficient for our production.

TRADE RECEIVABLES

As at 31 December 2014, the trade receivables amounted to approximately RMB105.8 million (2013: RMB95.3 million). We normally granted our customers a credit period of 30 to 60 days following the day of delivery. The turnover day for trade receivables was approximately 64 days (2013: 63 days) primarily due to the business expansion in our business.

TRADE PAYABLES

As at 31 December 2014, the trade payables amounted to approximately RMB76.9 million (2013: RMB70.3 million). The Group managed to obtain a credit period of 60 days from the majority of its suppliers. The turnover day for trade payables was approximately 61 days (2013: 56 days)

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 have material impact on 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 2014.

CAPITAL COMMITMENTS

As at 31 December 2014, the Group's capital commitments were approximately RMB67.9 million (2013: RMB20.4 million). All the capital commitments for 2014 relate to capital contribution payable to subsidiaries whereas those for 2013 relate to purchasing new properties and facilities and equipment.

CONTINGENT LIABILITIES

As at 31 December 2014, the Group did not have any material contingent liabilities or guarantees.

PLEDGE OF ASSETS

As at 31 December 2014, the Group has pledged certain assets with a carrying value of approximately RMB15.6million as collateral for the Group's bills payable and bank borrowing (2013: RMB62.9 million).

FINANCIAL INSTRUMENTS

The Group did not have any hedging contracts or financial derivatives outstanding for the year ended 31 December 2014.

BORROWINGS

As at 31 December 2014, the Group's borrowings amounted to approximately RMB11.0 million (2013: RMB21.2 million).

The Group's banks borrowings are denominated in Renminbi which carry interest rates that is linked to the benchmark lending rate published by the People's Bank of China.

USE OF NET PROCEEDS FROM THE COMPANY'S INITIAL PUBLIC OFFERING ("IPO")

The shares of the Company were listed on the Main Board on 13 January 2014 with net proceeds received by the Company from the global offering amounted to approximately HK$73.1 million (RMB57.7 million) after deducting underwriting commissions and all related expenses.

Use of proceeds	Available RMB million	Utilized up to 31 Dec 2014 RMB million
Setting up four new production lines, of which one for production of corrugated paperboards, one for manufacture of flexo-printed cartons and two for manufacture of offset-printed cartons in the Fengxin Plant	44.8	44.8
Enhancing the research and development capabilities	2.8	2.8
Construction of a new production block in the Fengxin Plant	7.1	7.1
General working capital	3	3
Total	57.7	57.7

INFORMATION ON EMPLOYEES

As at 31 December 2014, the Group had a total of 458 employees, including the Executive Directors. Total staff costs (including Directors' emoluments) were approximately RMB29.2 million, as compared to approximately RMB20.2 million for the year ended 31 December 2013.

The Group remunerates its employees based on their performance, experience and prevailing industry practice. To attract and retain elite employees, competitive remuneration packages which include salaries, medical insurance, discretionary bonuses were offered. In addition, retirement benefits were offered to both Hong Kong employees (in the form of mandatory fund schemes) and PRC employees (in the form of state-managed retirement benefit schemes).

The Group may also grant share options under the Company's share option scheme. Please refer to the paragraph headed "Share option schemes" under the "Directors' Report" for the share options granted to certain Directors and employees of the Group.

SIGNIFICANT INVESTMENTS, MATERIAL ACQUISTIONS AND DISPOSAL OF SUBSIDIARIES AND AFFILIATED COMPANIES

On 6 May 2014, Hongyu was established as a wholly owned subsidiary of Hongsheng with a registered capital of RMB60 million, which will be payable in cash, to engage in the manufacture and sale of stone paper and stone-paper based products.

Save as disclosed above, the Group had no other material acquisitions or disposals during the year.

FUTURE PLANS AND PROSPECTS

The Group strives to be a leading manufacturer of high quality paper-based packaging products in the PRC. It will keep focusing on the design, manufacture and printing of paper-based packaging products with precision for packaging of a variety of products and at the same time, develop our new packaging products with the use of stone paper.

Looking ahead, the experienced management team, research and development capabilities, enhanced capacity from the new production lines, well established relationship with our major suppliers and customers and emphasis on the quality of products have made the Group best positioned to benefit from future economic growth in China, which is increasingly driven by the domestic consumption market.

Continue to focus on printing of paper-based packaging products for packaging of different kinds of products with precision

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 market. 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 widened to satisfy the ever changing customers' need.

Continued development of stone-paper based packaging products and stone paperboards

To fully utilize the new stone-paper production line, the Group will continue to explore and implement stone-paper based packaging products and stone paperboards which were developed through the Group's strategic alliance with the Wuhan University and the Beijing Institute of Graphic Communication. This strategic alliance will continue to provide the Group with readily available technical expertise and the requisite technology which enable the Group to design new paper-based packaging products and to improve product quality.

Selective acquisition and partnership

To increase our production capacity and market share, apart from relying on the expansion of the scale of our operations and introducing new products and technology, the Group also intends to conduct selective acquisition. The targets of our acquisitions include paper-based packaging carton manufacturers and/or complementary production facilities in the PRC. Alternatively, the Group may establish partnerships with other market players in areas such as production, material sourcing, sales and research. The synergy effect of these partnerships enables the Group to benefit from lower cost of materials and sales, and strengthen technical capabilities.

The Board is pleased to present its report together with the audited consolidated financial statements of the Group for the year ended 31 December 2014.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding and those of the principal subsidiaries of the Company are set out in Note 1 to the Consolidated Financial Statements.

RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31 December 2014 are set out in the consolidated statement of profit or loss and other comprehensive income on page 28.

The Directors do not recommend the payment of a final dividend for the year ended 31 December 2014 (2013: Nil).

FIVE YEAR FINANCIAL SUMMARY

A summary of the results, assets and liabilities of the Group for the past five financial years is set out on page 80 of this annual report.

SHARE CAPITAL

Details of movements in share capital of the Company during the year are set out in Note 27 to the Consolidated Financial Statements.

DISTRIBUTABLE RESERVES

The Company did not have reserves in aggregate available for distribution to the Shareholders as at 31 December 2014.

Movements in the reserves of the Group during the year are set out in the consolidated statement of changes in equity on page 31 of this annual report.

MAJOR CUSTOMERS AND SUPPLIERS

Sales to the Group's largest and five largest customers accounted for approximately 7.7% and 25.9% of the total turnover for the year 2014 respectively. Purchases from the Group's largest and five largest suppliers accounted for approximately 27.1% and 72.6% of the total purchases for the year 2014 respectively.

To the best knowledge of the Directors, neither the Directors, their associates, nor any shareholders who owned more than 5% of the Company's issued share capital, had any beneficial interest in any of the Group's five largest customers or suppliers during the year ended 31 December 2014.

SUBSIDIARIES

Details of the principal subsidiaries of the Company are set out in Note 28 to the Consolidated Financial Statements.

PROPERTY, PLANT AND EQUIPMENT

Details of movements in property, plant and equipment during the year are set out in Note 18 to the Consolidated Financial Statements.

CHARITABLE CONTRIBUTIONS

During the year, the Group did not make charitable contributions (2013: Nil).

DIRECTORS AND DIRECTORS' SERVICE AGREEMENTS

The Directors of the Company who hold office during the year and up to the date of this report are:

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

Independent Non-executive Directors
Mr. Liu Da Jin
Mr. Wu Ping
Mr. Ma Yiu Ho, Peter

In accordance with the provisions of the Company's Articles of Association, Mr. Chen Wei Wei and Mr. Liu Da Jin will retire and, being eligible, will offer themselves for re-election at the forthcoming Annual General Meeting ("AGM").

None of the Directors, including two proposed for re-election at the forthcoming AGM, has a service agreement which is not determinable by the Company within one year without payment of compensation, other than statutory compensation.

The Company has received annual confirmation on independence from each of the Independent Non-executive Directors pursuant to Rule 3.13 of the Listing Rules and all of them are considered to be independent.

DIRECTORS' REMUNERATION

The remuneration of the Directors is determined with reference to Directors' duties, responsibilities and performance and the results of the Group.

Details of the remuneration of the directors are set out in Note 12 to the Consolidated Financial Statements.

BIOGRAPHIES OF DIRECTORS AND SENIOR MANAGEMENT

The biographical details of the Directors and senior management of the Group are disclosed in the section headed "Biographical Details of Directors and Senior Management" on pages 3 to 4 of this annual report.

MATERIAL ACQUISITION AND DISPOSAL OF SUBSIDIARIES AND ASSOCIATED COMPANIES

During the year ended 31 December 2014, there was no material acquisition or disposal of subsidiaries or associated companies by the Company.

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 9 years as the date of this report. 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.

- **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.

Details of the share options outstanding as at 31 December 2014 under the Scheme are as follows:

Name and Category of grantees	Date of Grant	Exercisable period	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
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
				–	19,000,000	–	–	19,000,000
Total for all categories				–	40,000,000	–	–	40,000,000

DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES AND DEBENTURES

As at 31 December 2014, 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 in shares of the Company

Name of director	Capacity	Number of Shares held	Approximate percentage of shareholding
Mr. Sun Shao Hua	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 31 December 2014, 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.

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

As at 31 December 2014, so far as is known to the Directors, the following 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 director	Capacity	Number of Shares held	Approximate percentage of shareholding
Novel Blaze	Beneficial owner	408,000,000	51.0%
Mr. Zhuo Long Wong	Beneficial owner	68,180,000	8.5%
Qi Yuan Assets Management (HK) Ltd.	Beneficial owner	58,450,000	7.3%
Mr. Wu Shifa	Beneficial owner	51,000,000	6.4%

DIRECTORS' AND CONTROLLING SHAREHOLDER'S INTERESTS IN CONTRACTS OF SIGNIFICANCE

No contract of significance to which the Company or its subsidiaries was a party and in which the controlling Shareholder or a Director had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

CONNECTED TRANSACTIONS AND CONTINUING CONNECTED TRANSACTIONS

During the year, there were no connected transactions and continuing connected transactions between the Group and its connected persons (as defined under the Listing Rules) which are subject to the reporting, announcement and the independent shareholders' approval requirement under the Listing Rules.

The material related party transactions as disclosed in Note 30 to the Consolidated Financial Statements are connected transactions exempt from reporting, announcement and independent shareholders' approval requirements under the Listing Rules.

COMPETITION AND CONFLICT OF INTERESTS

None of the Directors or any of their respective associates, has engaged in any business that competes or may compete with the business of the Group, or has any other conflict of interest with the Group.

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

During the year, there was no purchase, sale or redemption by the Company, or any of its subsidiaries, of the Company's listed securities.

MANAGEMENT CONTRACTS

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed during the year.

PRE-EMPTIVE RIGHTS

There is no provision for pre-emptive rights under the Company's Articles of Association or the laws of the Cayman Islands.

SUFFICIENCY OF PUBLIC FLOAT

Based on information that is publicly available to the Company and within the knowledge of the Directors, the Company has maintained the prescribed public float under the Listing Rules as at the date of this annual report.

CORPORATE GOVERNANCE

The Company is committed to adopt corporate governance practice. The Company's corporate governance practices are set out in the Corporate Governance Report on pages 7 to 13.

AUDITORS

The consolidated financial statements for the year ended 31 December 2014 have been audited by HLB Hodgson Impey Cheng Limited which retires, and being eligible, offer itself for re-appointment at 2015 AGM. A resolution to re-appoint HLB Hodgson Impey Cheng Limited and to authorize the Directors to fix its remuneration will be proposed at the 2015 AGM.

On behalf of the Board
Chen Wei Wei
Chairman and Executive Director
Jiangxi Province, the PRC, 23 March 2015

HLB 國衛會計師事務所有限公司
Hodgson Impey Cheng Limited

31/F, Gloucester Tower
The Landmark
11 Pedder Street
Central
Hong Kong

TO THE SHAREHOLDERS OF CHINA PACKAGING HOLDINGS DEVELOPMENT LIMITED
(Incorporated in Cayman Islands with limited liability)

We have audited the consolidated financial statements of China Packaging Holdings Development Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 28 to 79, which comprise the consolidated and the company statements of financial position as at 31 December 2014, and the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

AUDITORS' RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated financial statements based on our audit and to report our opinion solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation of the consolidated financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2014, and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

HLB Hodgson Impey Cheng Limited
Certified Public Accountants

Wong Sze Wai, Basilia
Practising Certificate Number: P05806

Hong Kong, 23 March 2015

Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the year ended 31 December 2014

	Notes	2014 RMB'000	2013 RMB'000
Turnover	8	**491,523**	383,049
Cost of sales		**(374,245)**	(293,443)
Gross profit		**117,278**	89,606
Other revenue	9	**1,165**	921
Other income	10	**10,767**	7,945
Selling and distribution expenses		**(20,280)**	(15,792)
Administrative expenses		**(26,874)**	(21,764)
Equity-settled share option expenses		**(4,274)**	–
Profit from operating activities		**77,782**	60,916
Finance costs	13	**(1,781)**	(1,056)
Profit before tax	11	**76,001**	59,860
Income tax expenses	14	**(13,879)**	(15,523)
Profit for the year		**62,122**	44,337
Other comprehensive income for the year, net of tax			
Items that may be reclassified subsequently to profit or loss			
Exchange differences on translating foreign operations		**220**	427
Other comprehensive income for the year, net of tax		**220**	427
Total comprehensive income for the year, net of tax		**62,342**	44,764
Profit attributable to owners of the Company		**62,122**	44,337
Total comprehensive income attributable to owners of the Company		**62,342**	44,764
Earnings per share attributable to owners of the Company			
– Basic (RMB cents)	17	**7.83**	7.39
– Diluted (RMB cents)	17	**7.83**	7.39

The accompanying notes form an integral part of these consolidated financial statements.

Consolidated Statement of Financial Position

At 31 December 2014

	Notes	2014 RMB'000	2013 RMB'000
Non-current assets			
Property, plant and equipment	18	**153,034**	82,537
Prepaid lease payments	19	**2,375**	2,435
Deposits paid for acquisition of equipment		**–**	9,869
		155,409	94,841
Current assets			
Inventories	20	**17,890**	10,827
Trade receivables	21	**105,797**	95,337
Prepayments, deposits and other receivables	22	**9,587**	2,653
Tax recoverable		**960**	–
Pledged bank deposits	23	**660**	2,278
Cash and bank balances	23	**92,481**	45,834
		227,375	156,929
Current liabilities			
Trade, bills, other payables and accruals	24	**95,615**	84,132
Amount due to a director	25	**–**	2,808
Bank borrowings	26	**11,000**	21,200
Tax payables		**–**	4,952
		106,615	113,092
Net current assets		**120,760**	43,837
Total assets less current liabilities		**276,169**	138,678
Net assets		**276,169**	138,678
Capital and reserves attributable to owners of the Company			
Share capital	27	**6,287**	–
Reserves	27	**269,882**	138,678
Total equity		**276,169**	138,678

Approved by the Board on 23 March 2015 and signed on its behalf by:

Mr. Chen Wei Wei
Chairman

Mr. Sun Shao Hua
Executive Director

The accompanying notes form an integral part of these consolidated financial statements.

Statement of Financial Position

At 31 December 2014

	Notes	2014 RMB'000	2013 RMB'000
Non-current assets			
Interests in subsidiaries	28	**–**	–
Property, plant and equipment	18	**75**	–
		75	–
Current assets			
Prepayments, deposits and other receivables	22	**45**	2,097
Amount due from subsidiaries	28	**57,227**	1,370
Cash and bank balances		**842**	204
		58,114	3,671
Current liabilities			
Accruals	24	**1,093**	3,673
Amount due to a director	25	**–**	2,808
		1,093	6,481
Net current assets/(liabilities)		**57,021**	(2,810)
Total assets less current liabilities		**57,096**	(2,810)
Net assets/(liabilities)		**57,096**	(2,810)
Capital and reserves attributable to owners of the Company			
Share capital	27	**6,287**	–
Reserves	27	**50,809**	(2,810)
Total equity		**57,096**	(2,810)

Approved by the Board on 23 March 2015 and signed on its behalf by:

Mr. Chen Wei Wei
Chairman

Mr. Sun Shao Hua
Executive Director

The accompanying notes form an integral part of these financial statements.

Consolidated Statement of Changes in Equity

For the year ended 31 December 2014

	Attributable to owners of the Company							
		Reserves						
	Share capital RMB'000	Share premium RMB'000	Share option reserve RMB'000	Statutory reserve RMB'000	Other reserve RMB'000	Exchange reserve RMB'000	Retained profit RMB'000	Total RMB'000
At 1 January 2013	–	–	–	7,635	–	2,304	68,074	78,013
Profit for the year	–	–	–	–	–	–	44,337	44,337
Other comprehensive income for the year	–	–	–	–	–	427	–	427
Total comprehensive income for the year	–	–	–	–	–	427	44,337	44,764
Transfer to statutory reserve	–	–	–	4,924	–	–	(4,924)	–
Effect of reorganisation	–	–	–	–	15,901	–	–	15,901
At 31 December 2013 and 1 January 2014	–	–	–	12,559	15,901	2,731	107,487	138,678
Profit for the year	–	–	–	–	–	–	62,122	62,122
Other comprehensive income for the year	–	–	–	–	–	220	–	220
Total comprehensive income for the year	–	–	–	–	–	220	62,122	62,342
Equity-settled share option expenses	–	–	4,274	–	–	–	–	4,274
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)
Transfer to statutory reserve	–	–	–	7,546	–	–	(7,546)	–
At 31 December 2014	**6,287**	**64,588**	**4,274**	**20,105**	**15,901**	**2,951**	**162,063**	**276,169**

The accompanying notes form an integral part of these consolidated financial statements.

Consolidated Statement of Cash Flows

For the year ended 31 December 2014

	2014 RMB'000	2013 RMB'000
OPERATING ACTIVITIES		
Profit before tax	**76,001**	59,860
Adjustments for:		
Amortisation of prepaid lease payments	**60**	60
Depreciation of property, plant and equipment	**7,403**	3,855
Equity-settled share option expenses	**4,274**	–
Finance costs	**1,781**	1,056
Interest income	**(362)**	(192)
Loss on disposal of property, plant and equipment	**–**	2
Operating cash flows before movement in working capital	**89,157**	64,641
(Increase)/decrease in inventories	**(7,063)**	5,107
Increase in trade receivables	**(10,460)**	(36,982)
Increase in prepayments and other receivables	**(6,923)**	(2,560)
(Decrease)/increase in amount due to a director	**(2,808)**	2,808
Increase in trade, bills, other payables and accruals	**11,465**	41,268
Decrease/(increase) in pledged bank deposits	**1,618**	(1,228)
Cash generated from operations	**74,986**	73,054
PRC tax paid	**(19,791)**	(12,436)
Net cash generated from operating activities	**55,195**	60,618
INVESTING ACTIVITIES		
Interest received	**362**	192
Deposit paid for acquisition of equipment	**–**	(9,869)
Proceeds from disposal of property, plant and equipment	**–**	7
Purchase of property, plant and equipment	**(68,031)**	(36,012)
Net cash used in investing activities	**(67,669)**	(45,682)
FINANCING ACTIVITIES		
Decrease in amount due to an immediate holding company	**–**	(384)
Proceeds from bank borrowings	**14,000**	21,200
Repayments of bank borrowings	**(24,200)**	(15,000)
Bank borrowings interest paid	**(1,781)**	(1,056)
Net proceeds from issue of ordinary shares	**70,875**	–
Net cash generated from financing activities	**58,894**	4,760
Net increase in cash and cash equivalents	**46,420**	19,696
Cash and cash equivalents at the beginning of the year	**45,834**	25,711
Effect of exchange rate changes on the balance of cash held in foreign currencies	**227**	427
Cash and cash equivalents at the end of the year	**92,481**	45,834

The accompanying notes form an integral part of these consolidated financial statements.

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 Company acts as an investment holding company while its principal operating subsidiary is engaged in sales of packaging materials.

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. REORGANISATION

In preparation for the listing of the Company's shares on the Main Board of the Stock Exchange, the Group underwent a reorganisation (the "Reorganisation"), as a result of which the Company became a holding company of the subsidiaries comprising the Group. The Reorganisation included the following principal steps:

(i) Rich Kirin Holdings Limited ("Rich Kirin") was incorporated in the BVI on 13 June 2013 and is authorised to issue a maximum of 50,000 shares of a single class with a par value of US$1.00 each. On 12 July 2013, one share was allotted and issued as fully paid to the Company.

(ii) The Company was incorporated on 12 July 2013 and on the same date one nil-paid subscriber share of HK$0.01 was transferred to Novel Blaze. On 26 August 2013, Novel Blaze credited and fully paid up the nil-paid subscriber share of HK$0.01.

(iii) On 26 August 2013, a loan due to Sino Hi-Tech Printing and Packing Limited ("Sino Hi-Tech") from Big Wealth Limited ("Big Wealth") in an aggregate sum of approximately HK$20,045,000 was capitalised by the allotment and issue of 99 shares of Big Wealth to Sino Hi-Tech at an aggregate subscription price of approximately HK$20,045,000 and to set off the said subscription price pro tanto approximately HK$20,045,000 in full.

(iv) On 26 August 2013, the Company, through Rich Kirin, acquired the entire issued share capital of Big Wealth from Sino Hi-Tech, in consideration of which, the Company allotted and issued 77 shares to Novel Blaze, 5 shares to Zhen Xing Holdings Limited ("Zhen Xing"), 5 shares to Celestial Key Investment Limited ("Celestial Key") and 12 shares to Profit Rocket Limited ("Profit Rocket"). Upon completion of the above transfer and allotments, the Company was owned as to 78% by Novel Blaze, 5% by Zhen Xing, 5% by Celestial Key and 12% by Profit Rocket.

(v) On 13 December 2013, the authorised share capital of the Company was increased from HK$380,000 to HK$80,000,000 by the creation of a further 7,962,000,000 shares.

(vi) Upon completion of the Reorganisation on 13 December 2013, the Company became the holding company of the Group.

The consolidated financial statements of the Group have been prepared as if the Group had always been in existence throughout both years presented, or since the respective dates of incorporation or establishment of the Group companies, rather than from the date when the Company became the holding company pursuant to the Reorganisation.

3. 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") which are effective for the Group's financial period beginning 1 January 2014. A summary of the new HKFRSs are set out as below:

HKFRS 10, HKFRS 12 and HKAS 27 (Amendments)	Investment Entities
HKAS 32 (Amendments)	Financial Instruments: Presentation – Offsetting Financial Assets and Financial Liabilities
HKAS 36 (Amendments)	Impairment of Assets: Recoverable Amount Disclosure for Non-Financial Assets
HKAS 39 (Amendments)	Financial Instruments: Recognition and Measurement – Novation of Derivatives and Continuation of Hedge Accounting
HK (IFRIC) – Int 21	Levies

Amendments to HKFRS 10, HKFRS 12 and HKAS 27 *Investment Entities*

The Group has applied the amendments to HKFRS 10, HKFRS 12 and HKAS 27 *Investment Entities* for the first time in the current year. The amendments to HKFRS 10 define an investment entity and require a reporting entity that meets the definition of an investment entity not to consolidate its subsidiaries but instead to measure its subsidiaries at fair value through profit or loss in its consolidated and separate financial statements.

To qualify as an investment entity, a reporting entity is required to:

- obtain funds from one or more investors for the purpose of providing them with investment management services;
- commit to its investor(s) that its business purpose is to invest funds solely for returns from capital appreciation, investment income, or both; and
- measure and evaluate performance of substantially all of its investments on a fair value basis.

Consequential amendments have been made to HKFRS 12 and HKAS 27 to introduce new disclosure requirements for investment entities.

As the Company is not an investment entity (assessed based on the criteria set out in HKFRS 10 as at 1 January 2014), the application of the amendments has had no impact on the disclosures or the amounts recognised in the Group's consolidated financial statements.

Amendments to HKAS 32 *Offsetting Financial Assets and Financial Liabilities*

The Group has applied the amendments to HKAS 32 *Offsetting Financial Assets and Financial Liabilities* for the first time in the current year. The amendments to HKAS 32 clarify the requirements relating to the offset of financial assets and financial liabilities. Specifically, the amendments clarify the meaning of 'currently has a legally enforceable right of set-off' and 'simultaneous realisation and settlement'.

The amendments have been applied retrospectively. The Group has assessed whether certain of its financial assets and financial liabilities qualify for offset based on the criteria set out in the amendments and concluded that the application of the amendments has no impact on the amounts recognised in the Group's consolidated financial statements.

3. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (continued)

Amendments to HKAS 36 *Recoverable Amount Disclosures for Non-Financial Assets*

The Group has applied the amendments to HKAS 36 *Recoverable Amount Disclosures for Non-Financial Assets* for the first time in the current year. The amendments to HKAS 36 remove the requirement to disclose the recoverable amount of a cash-generating unit (CGU) to which goodwill or other intangible assets with indefinite useful lives had been allocated when there has been no impairment or reversal of impairment of the related CGU. Furthermore, the amendments introduce additional disclosure requirements applicable to when the recoverable amount of an asset or a CGU is measured at fair value less costs of disposal. These new disclosures include the fair value hierarchy, key assumptions and valuation techniques used which are in line with the disclosure required by HKFRS 13 *Fair Value Measurements*.

The application of these amendments has had no material impact on the disclosure required by HKFRS 13 *Fair Value Measurements*.

Amendments to HKAS 39 *Novation of Derivatives and Continuation of Hedge Accounting*

The Group has applied the amendments to HKAS 39 *Novation of Derivatives and Continuation of Hedge Accounting* for the first time in the current year. The amendments to HKAS 39 provide relief from the requirement to discontinue hedge accounting when a derivative designated as a hedging instrument is novated under certain circumstances. The amendments also clarify that any change to the fair value of the derivative designated as a hedging instrument arising from the novation should be included in the assessment and measurement of hedge effectiveness.

The amendments have been applied retrospectively. As the Group does not have any derivatives that are subject to novation, the application of these amendments has had no impact on the disclosures or on the amounts recognised in the Group's consolidated financial statements.

HK (IFRIC) – Int 21 *Levies*

The Group has applied HK (IFRIC) – Int 21 *Levies* for the first time in the current year. HK (IFRIC) – Int 21 *Levies* addresses the issue as to when to recognise a liability to pay a levy imposed by a government. The Interpretation defines a levy, and specifies that the obligating event that gives rise to the liability is the activity that triggers the payment of the levy, as identified by legislation. The interpretation provides guidance on how different levy arrangements should be accounted for, in particular, it clarifies that neither economic compulsion nor the going concern basis of the financial statements preparation implies that an entity has a present obligation to pay a levy that will be triggered by operating in a future period.

HK (IFRIC) – Int 21 has been applied retrospectively. The application of this interpretation has had no material impact on the disclosures or on the amounts recognised in the Group's consolidated financial statements.

3. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (continued)

HK (IFRIC) – Int 21 *Levies* (continued)

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 2010-2012 Cycle[2]
HKFRSs (Amendments)	Annual Improvements to HKFRSs 2011-2013 Cycle[1]
HKFRSs (Amendments)	Annual Improvements to HKFRSs 2012-2014 Cycle[3]
HKFRS 9	Financial Instruments[6]
HKFRS 10 and HKAS 28 (Amendments)	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[3]
HKFRS 10, HKFRS 12 and HKAS 28 (Amendments)	Investment Entities: Applying the Consolidation Exception[3]
HKFRS 11 (Amendments)	Accounting for Acquisitions of Interests in Joint Operations[3]
HKFRS 14	Regulatory Deferral Accounts[4]
HKFRS 15	Revenue from Contracts with Customers[5]
HKAS 1 (Amendments)	Disclosure Initative[3]
HKAS 19 (Amendments)	Defined Benefit Plans: Employee Contributions[1]
HKAS 27 (Amendments)	Equity Method in Separate Financial Statements[3]
HKAS 16 and HKAS 38 (Amendments)	Clarification of Acceptable Methods of Depreciation and Amortisation[3]
HKAS 16 and HKAS 41 (Amendments)	Agriculture: Bearer Plants[3]

1 Effective for annual periods beginning on or after 1 July 2014
2 Effective for annual periods beginning on or after 1 July 2014, with limited exceptions
3 Effective for annual periods beginning on or after 1 January 2016
4 Effective for first annual HKFRS financial statements beginning on or after 1 January 2016
5 Effective for annual periods beginning on or after 1 January 2017
6 Effective for annual periods beginning on or after 1 January 2018

HKFRS 9 – *Financial Instruments*

HKFRS 9 issued in 2009 introduced new requirements for the classification and measurement of financial assets. HKFRS 9 was subsequently amended in 2010 to include requirements for the classification and measurement of financial liabilities and for derecognition, and further amended in 2013 to include the new requirements for general hedge accounting. Another revised version of HKFRS 9 was issued in 2014 mainly to include a) impairment requirements for financial assets and b) limited amendments to the classification and measurement requirements by introducing a 'fair value through other comprehensive income' (FVTOCI) measurement category for certain simple debt instruments.

Key requirements of HKFRS 9 are described below:

- All recognised financial assets that are within the scope of HKAS 39 *Financial Instruments: Recognition and Measurement* are subsequently measured at amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. Debt instruments that are held within a business model whose objective is achieved both by collecting contractual cash flows and selling financial assets, and that have contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding, are measured at FVTOCI. All other debt investments and equity investments are measured at their fair value at the end of subsequent accounting periods. In addition, under HKFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income, with only dividend income generally recognised in profit or loss.

3. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (continued)

HKFRS 9 – *Financial Instruments* (continued)

- With regard to the measurement of financial liabilities designated as at fair value through profit or loss, HKFRS 9 requires that the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value of financial liabilities attributable to changes in the financial liabilities' credit risk are not subsequently reclassified to profit or loss. Under HKAS 39, the entire amount of the change in the fair value of the financial liability designated as fair value through profit or loss was presented in profit or loss.

- In relation to the impairment of financial assets, HKFRS 9 requires an expected credit loss model, as opposed to an incurred credit loss model under HKAS 39. The expected credit loss model requires an entity to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition. In other words, it is no longer necessary for a credit event to have occurred before credit losses are recognised.

- The new general hedge accounting requirements retain the three types of hedge accounting. However, greater flexibility has been introduced to the types of transactions eligible for hedge accounting, specifically broadening the types of instruments that qualify for hedging instruments and the types of risk components

The directors of the Company do not anticipate that the application of these amendments to HKFRS 9 will have a material impact on the Group's consolidated financial statements.

Amendments to HKFRS 10 and HKAS 28 – *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*

Amendments to HKAS 28:

- The requirements on gains and losses resulting from transactions between an entity and its associate or joint venture have been amended to relate only to assets that do not constitute a business.

- A new requirement has been introduced that gains or losses from downstream transactions involving assets that constitute a business between an entity and its associate or joint venture must be recognised in full in the investor's financial statements.

- A requirement has been added that an entity needs to consider whether assets that are sold or contributed in separate transactions constitute a business and should be accounted for as a single transaction.

Amendments to HKFRS 10:

- An exception from the general requirement of full gain or loss recognition has been introduced into HKFRS 10 for the loss control of a subsidiary that does not contain a business in a transaction with an associate or a joint venture that is accounted for using the equity method.

- New guidance has been introduced requiring that gains or losses resulting for those transactions are recognised in the parent's profit or loss only to the extent of the unrelated investors' interests in that associate or joint venture. Similarly, gains and losses resulting from the remeasurement at fair value of investments retained in any former subsidiary that has become an associate or a joint venture that is accounted for using the equity method are recognised in the former parent's profit or loss only to the extent of the unrelated investors' interests in the new associate or joint venture.

The directors of the Company do not anticipate that the application of these amendments to HKFRS 10 and HKAS 28 will have a material impact on the Group's consolidated financial statements.

3. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (continued)

Amendments to HKFRS 10, HKFRS 12 and HKAS 28 – *Investment Entities: Applying the Consolidation Exception*

The narrow-scope amendments to HKFRS 10, HKFRS 12 and HKAS 28 introduce clarifications to the requirements when accounting for investment entities. The amendments also provide relief in particular circumstances, which will reduce the costs of applying the standards.

Amendments to HKFRS 11 – *Accounting for Acquisitions of Interests in Joint Operations*

The amendments to HKFRS 11 provide guidance on how to account for the acquisition of a joint operation that constitutes a business as defined in HKFRS 3 *Business Combinations*. Specifically, the amendments state that the relevant principles on accounting for business combinations in HKFRS 3 and other standards should be applied. The same requirements should be applied to the formation of a joint operation if and only if an existing business is contributed to the joint operation by one of the parties that participate in the joint operation.

A joint operator is also required to disclose the relevant information required by HKFRS 3 and other standards for business combinations.

The amendments to HKFRS 11 apply prospectively for annual periods beginning on or after 1 January 2016. The directors of the Company do not anticipate that the application of these amendments to HKFRS 11 will have a material impact on the Group's consolidated financial statements.

HKFRS 14 – *Regulatory Deferral Accounts*

HKFRS 14 specifies the accounting for regulatory deferral account balances that arise from rate-regulated activities. The Standard is applicable only to first-time adopters of HKFRSs who recognised regulatory deferral account balances under their previous GAAP. HKFRS 14 permits eligible first-time adopters of HKFRSs to continue their previous GAAP rate-regulated accounting policies, with limited changes, and requires separate presentation of regulatory deferral account balances in the statement of financial position and statement of profit or loss and other comprehensive income. Disclosure are also required to identify the nature of, and risks associated with, the form of rate regulation that has given rise to the recognition of regulatory deferral account balances.

HKFRS 14 is effective for an entity's first annual HKFRS financial statements for annual periods beginning on or after 1 January 2016, with earlier application permitted. The directors of the Company do not anticipate that the application of these amendments to HKFRS 14 will have a material impact on the Group's consolidated financial statements.

HKFRS 15 – *Revenue from Contracts with Customers*

In July 2014, HKFRS 15 was issued which establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. HKFRS 15 will supersede the current revenue recognition guidance including HKAS 18 *Revenue*, HKAS 11 *Construction Contracts* and the related Interpretations when it becomes effective.

3. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (continued)

HKFRS 15 – *Revenue from Contracts with Customers* (continued)

The core principle of HKFRS 15 is that an entity should recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Specifically, the Standard introduces a 5-step approach to revenue recognition.

- Step 1: Identify the contract(s) with a customer
- Step 2: Identify the performance obligations in the contract
- Step 3: Determine the transaction price
- Step 4: Allocate the transaction price to the performance obligations in the contract
- Step 5: Recognise revenue when (or as) the satisfies a performance obligation

Under HKFRS 15, an entity recognises revenue when (or as) a performance obligation is satisfied, i.e. when 'control' of the goods or services underlying the particular performance obligation is transferred to the customer. Far more prescriptive guidance has been added in HKFRS 15 to deal with specific scenarios. Furthermore, extensive disclosures are required by HKFRS 15.

The directors of the Company do not anticipate that the application of these amendments to HKFRS 15 will have a material impact on the Group's consolidated financial statements.

Amendments to HKAS 1 – *Presentation of Financial Statements*

The amendments to HKAS 1 are designed to further encourage companies to apply professional judgement in determining what information to disclose in their financial statements. For example, the amendments make clear that materiality applies to the whole of financial statements and that the inclusion of immaterial information can inhibit the usefulness of financial disclosures. Furthermore, the amendments clarify that companies should use professional judgement in determining where and in what order information is presented in the financial disclosures.

Amendments to HKAS 19 – *Defined Benefit Plans: Employee Contributions*

The amendments to HKAS 19 clarify how an entity should account for contributions made by employees or third parties to defined benefit plans, based on whether those contributions are dependent on the number of years of service provided by the employee.

For contributions that are independent of the number of years of service, the entity may either recognise the contributions as a reduction of the service cost in the period in which the related service is rendered, or to attribute them to the employees' periods of service either using the projected unit credit method; whereas for contributions that are dependent on the number of years of service, the entity is required to attribute them to the employees' periods of service.

The directors of the Company do not anticipate that the application of these amendments to HKAS 19 will have a significant impact on the Group's consolidated financial statements.

3. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (continued)

Amendments to HKAS 27 – *Equity Method in Separate Financial Statements*

The amendments allow an entity to account for investments in subsidiaries, joint ventures and associates in its separate financial statements

- At cost
- In accordance with HKFRS 9 Financial Instruments (or HKAS 39 *Financial Instruments: Recognition and Measurement* for entities that have not yet adopted HKFRS 9), or
- Using the equity method as described in HKAS 28 *Investments in Associates and Joint Ventures*.

The accounting option must be applied by category of investments.

The amendments also clarify that when a parent ceases to be an investment entity, or becomes an investment entity, it shall account for the change from the date when the change in status occurred.

In addition to the amendments to HKAS 27, there are consequential amendments to HKAS 28 to avoid a potential conflict with HKFRS 10 *Consolidated Financial Statements* and to HKFRS 1 *First-time Adoption of Hong Kong Financial Reporting Standards*.

The directors of the Company do not anticipate that the application of these amendments to HKAS 27 will have a material impact on the Group's consolidated financial statements.

Amendments to HKAS 16 and HKAS 38 – *Clarification of Acceptable Methods of Depreciation and Amortisation*

The amendments to HKAS 16 prohibit entities from using a revenue-based depreciation method for items of property, plant and equipment. The amendments to HKAS 38 introduce a rebuttable presumption that revenue is not an appropriate basis for amortisation of an intangible asset. This presumption can only be rebutted in the following two limited circumstances:

a) when the intangible asset is expressed as a measure of revenue.

b) when it can be demonstrated that revenue and the consumption of the economic benefits of the intangible asset are highly correlated.

The amendments apply prospectively for annual periods beginning on or after 1 January 2016. The directors of the Company do not anticipate that the application of these amendments to HKAS 16 and HKAS 38 will have a material impact on the Group's consolidated financial statements.

Amendments to HKAS 16 and HKAS 41 – *Agriculture: Bearer Plants*

The amendments to HKAS 16 and HKAS 41 define a bearer plant and require biological assets that meet the definition of a bearer plant to be accounted for as property, plant and equipment in accordance with HKAS 16, instead of HKAS 41. The produce growing on bearer plants continues to be accounted for in accordance with HKAS 41.

The directors of the Company do not anticipate that the application of these amendments to HKAS 16 and HKAS 41 will have a material impact on the Group's consolidated financial statements as the Group is not engaged in agricultural activities.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Statement of compliance

The consolidated financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards issued by the HKICPA. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange and by the Hong Kong Companies Ordinance.

Basis of preparation

The consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments which are measured at fair values, as explained in the accounting policies set out below.

Historical cost is generally based on the fair value of the consideration given in exchange for assets.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these consolidated financial statements is determined on such a basis, except for share-based payment transactions that are within the scope of HKFRS 2, leasing transactions that are within the scope of HKAS 17, and measurements that have some similarities to fair value but are not fair value, such as net realisable value in HKAS 2 or value in use in HKAS 36.

In addition, for financial reporting purposes, fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

Business combinations

Acquisitions of businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred by the Group, liabilities incurred by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. Acquisition related costs are generally recognised in profit or loss as incurred.

At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognised at their fair value at the acquisition date, except that:

(i) deferred tax assets or liabilities and liabilities or assets related to employee benefit arrangements are recognised and measured in accordance with HKAS 12 Income Taxes and HKAS 19 *Employee Benefits* respectively;

(ii) liabilities or equity instruments related to share-based payment transactions of the acquiree or the replacement of an acquiree's share-based payment transactions with share-based payment transactions of the Group are measured in accordance with HKFRS 2 *Share-based Payment* at the acquisition date; and

(iii) assets (or disposal groups) that are classified as held for sale in accordance with HKFRS 5 *Non-current Assets Held for Sale and Discontinued Operations* are measured in accordance with that standard.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Business combinations (continued)

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed. If, after assessment, the net of the acquisition-date amounts of the identifiable assets acquired and liabilities assumed exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held interest in the acquiree (if any), the excess is recognised immediately in profit or loss as a bargain purchase gain.

Non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation may be initially measured either at fair value or at the non-controlling interests' proportionate share of the recognised amounts of the acquiree's identifiable net assets. The choice of measurement basis is made on a transaction-by-transaction basis. Other types of non-controlling interests are measured at their fair value or another measurement basis required by another standard.

When the consideration transferred by the Group in a business combination includes assets or liabilities resulting from a contingent consideration arrangement, the contingent consideration is measured at its acquisition date fair value and considered as part of the consideration transferred in a business combination. Changes in the fair value of the contingent consideration that qualify as measurement period adjustments are adjusted retrospectively, with the corresponding adjustments being made against goodwill. Measurement period adjustments are adjustments that arise from additional information obtained during the "measurement period" (which cannot exceed one year from the acquisition date) about facts and circumstances that existed at the acquisition date.

The subsequent accounting for changes in the fair value of the contingent consideration that do not qualify as measurement period adjustments depends on how the contingent consideration is classified. Contingent consideration that is classified as equity is not remeasured at subsequent reporting dates and its subsequent settlement is accounted for within equity. Contingent consideration that is classified as an asset or a liability is remeasured at subsequent reporting dates in accordance with HKAS 39, or HKAS 37 *Provisions, Contingent Liabilities and Contingent Assets*, as appropriate, with the corresponding gain or loss being recognised in profit or loss.

When a business combination is achieved in stages, the Group's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date (i.e. the date when the Group obtains control), and the resulting gain or loss, if any, is recognised in profit or loss. Amounts arising from interests in the acquiree prior to the acquisition date that have previously been recognised in other comprehensive income are reclassified to profit or loss where such treatment would be appropriate if that interest were disposed of.

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Group reports provisional amounts for the items for which the accounting is incomplete. Those provisional amounts are adjusted during the measurement period (see above), or additional assets or liabilities are recognised, to reflect new information obtained about facts and circumstances that existed as of the acquisition date that, if known, would have affected the amounts recognised as of that date.

Merger accounting for common control combination

The financial information incorporate the financial statement items of the combining entities or business in which the common control combination occurs as if they had been combined from the date when the combining entities or business first came under the control of the controlling party.

The net assets of the combining entities or business are combined using the existing book values from the controlling party's perspective. No amount is recognised with respect to goodwill or any excess of acquirer's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities over its cost at the time of common control combination, to the extent of the contribution of the controlling party's interest.

The consolidated statement of profit or loss and other comprehensive income include the results of each of the combining entities or business from the earliest date presented or since the date when combining entities or business first came under common control, where this is a shorter period, regardless of the date of common control combination.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Merger accounting for common control combination (continued)

Intra-group transactions, balances and unrealised gains on transactions between the combining entities or business are eliminated. Unrealised losses are eliminated but considered as an impairment indicator of the asset transferred. Accounting policies of combining entities or business have been changed where necessary to ensure consistency with the policies adopted by the Group.

Transaction costs, including professional fees, registration fees, cost of furnishing information to shareholders, costs or losses incurred in combining operations of the previously separate businesses, etc., incurred in relation to the common control combination that is to be accounted for by using merger accounting are recognised as an expense in the period in which they are incurred.

Business consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities (including structured entities) controlled by the Company and its subsidiaries. Control is achieved when the Company:

- has power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee; and.
- has the ability to use its power to affect its returns.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

When the Group has less than a majority of the voting rights of an investee, it has power over the investee when the voting rights are sufficient to give it the practical ability to direct the relevant activities of the investee unilaterally. The Group considers all relevant facts and circumstances in assessing whether or not the Group's voting rights in an investee are sufficient to give it power, including:

- the size of the Group's holding of voting rights relative to the size and dispersion of holdings of the other vote holders;
- potential voting rights held by the Group, other vote holders or other parties;
- rights arising from other contractual arrangements; and
- any additional facts and circumstances that indicate that the Group has, or does not have, the current ability to direct the relevant activities at the time that decisions need to be made, including voting patterns at previous shareholders' meetings.

Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statement of profit or loss and other comprehensive income from the date the Group gains control until the date when the Group ceases to control the subsidiary.

Profit or loss and each item of other comprehensive income are attributed to the owners of the Company and to the non-controlling interests. Total comprehensive income of subsidiaries is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Business consolidation (continued)

All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

Changes in the Group's ownership interests in existing subsidiaries

Changes in the Group's ownership interests in existing subsidiaries that do not result in the Group losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the Group's interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to owners of the Company.

When the Group loses control of a subsidiary, a gain or loss is recognised in profit or loss and is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets (including goodwill), and liabilities of the subsidiary and any non-controlling interests. All amounts previously recognised in other comprehensive income in relation to that subsidiary are accounted for as if the Group had directly disposed of the related assets or liabilities of the subsidiary (i.e. reclassified to profit or loss or transferred to another category of equity as specified/permitted by applicable HKFRSs). The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under HKAS 39 *Financial Instruments: Recognition and Measurement* or, when applicable, the cost on initial recognition of an investment in an associate or a jointly venture.

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. Revenue excludes value added tax and is reduced for estimated customer returns, rebates and other similar allowances.

Sale of goods

Revenue from the sale of goods is recognised when the goods are delivered and titles have passed, at which time all the following conditions are satisfied:

- the Group has transferred to the buyer the significant risks and rewards of ownership of the goods;
- the Group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits associated with the transaction will flow to the Group; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

Interest income

Interest income from a financial asset is recognised when it is probable that the economic benefits will flow to the Group and the amount of income can be measured reliably. Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Leases

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

The Group as lessee

Assets held under finance leases are initially recognised as assets of the Group at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the consolidated statements of financial position as a finance lease obligation.

Lease payments are apportioned between finance expenses and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance expenses are recognised immediately in profit or loss, unless they are directly attributable to qualifying assets, in which case they are capitalised in accordance with the Group's general policy on borrowing costs. Contingent rentals are recognised as expenses in the periods in which they are incurred.

Operating lease payments are recognised as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed. Contingent rentals arising under operating leases are recognised as an expense in the period in which they are incurred.

In the event that lease incentives are received to enter into operating leases, such incentives are recognised as a liability. The aggregate benefit of incentives is recognised as a reduction of rental expense on a straight-line basis, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

Leasehold land for own use

When a lease includes both land and building elements, the Group assesses the classification of each element as a finance or an operating lease separately based on the assessment as to whether substantially all the risks and rewards incidental to ownership of each element have been transferred to the Group, unless it is clear that both elements are operating leases in which case the entire lease is classified as an operating lease. Specifically, the minimum lease payments (including any lump-sum upfront payments) are allocated between the land and the building elements in proportion to the relative fair values of the leasehold interests in the land element and building element of the lease at the inception of the lease.

To the extent the allocation of the lease payments can be made reliably, interest in leasehold land that is accounted for as an operating lease is presented as 'prepaid lease payments' in the consolidated statements of financial position and is amortised over the lease term on a straight-line basis. When the lease payments cannot be allocated reliably between the land and building elements, the entire lease is generally classified as a finance lease and accounted for as property, plant and equipment.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Foreign currencies

Items included in the consolidated financial statements of each of the companies now comprising the Group are measured using the currency of the primary environment in which the companies operate (the "functional currency").

In preparing the financial information of each individual group entity, transactions in currencies other than the entity's functional currency (foreign currencies) are recognised at the rates of exchange prevailing at the dates of the transactions. At the end of the reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences on monetary items are recognised in profit or loss in the period in which they arise except for:

- exchange differences on foreign currency borrowings relating to assets under construction for future productive use, which are included in the cost of those assets when they are regarded as an adjustment to interest costs on those foreign currency borrowings;
- exchange differences on transactions entered into in order to hedge certain foreign currency risks (see the accounting policies below); and
- exchange differences on monetary items receivable from or payable to a foreign operation for which settlement is neither planned nor likely to occur (therefore forming part of the net investment in the foreign operation), which are recognised initially in other comprehensive income and reclassified from equity to profit or loss on repayment of the monetary items.

The assets and liabilities of the Group's foreign operations are translated into the presentation currency of the Group (i.e. RMB) using exchange rates prevailing at the end of each reporting period. Income and expense items are translated at the average exchange rates for the period, unless exchange rates fluctuate significantly during that period, in which case the exchange rates at the dates of the transactions are used. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity under the heading of foreign currency translation reserve (attributed to non-controlling interests as appropriate).

On the disposal of a foreign operation (i.e. a disposal of the Group's entire interest in a foreign operation, or a disposal involving loss of control over a subsidiary that includes a foreign operation, a disposal involving loss of joint control over a jointly controlled entity that includes a foreign operation, or a disposal involving loss of significant influence over an associate that includes a foreign operation), all of the exchange differences accumulated in equity in respect of that operation attributable to the owners of the Group are reclassified to profit or loss.

In relation to a partial disposal of a subsidiary that does not result in the Group losing control over the subsidiary, the proportionate share of accumulated exchange differences is re-attributed to non-controlling interests and are not recognised in profit or loss. For all other partial disposals (i.e. partial disposals of associates or jointly controlled entities that do not result in the Group losing significant influence or joint control), the proportionate share of the accumulated exchange differences is reclassified to profit or loss.

Goodwill and fair value adjustments on identifiable assets acquired arising on the acquisition of a foreign operation are treated as assets and liabilities of the foreign operation and translated at the rate of exchange prevailing at the end of each reporting period. Exchange differences arising are recognised in equity under the heading of foreign currency translation reserve.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Research and development expenditure

Expenditure on research activities is recognised as an expense in the period in which it is incurred.

An internally-generated intangible asset arising from development (or from the development phase of an internal project) is recognised if, and only if, all of the following have been demonstrated:

- the technical feasibility of completing the intangible asset so that it will be available for use or sale;
- the intention to complete the intangible asset and use or sell it;
- the ability to use or sell the intangible asset;
- how the intangible asset will generate probable future economic benefits;
- the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and
- the ability to measure reliably the expenditure attributable to the intangible asset during its development.

The amount initially recognised for internally-generated intangible assets is the sum of the expenditure incurred from the date when the intangible asset first meets the recognition criteria listed above. Where no internally-generated intangible asset can be recognised, development expenditure is recognised in profit or loss in the period in which it is incurred.

Subsequent to initial recognition, internally-generated intangible assets are reported at cost less accumulated amortisation and accumulated impairment losses, on the same basis as intangible assets that are acquired separately.

Borrowing costs

Borrowing costs are directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation. All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

Government grants

Government grants are not recognised until there is reasonable assurance that the Group will comply with the conditions attaching to them and that the grants will be received.

Government grants are recognised in profit or loss on a systematic basis over the periods in which the Group recognises as expenses the related costs for which the grants are intended to compensate. Specifically, government grants whose primary condition is that the Group should purchase, construct or otherwise acquire non-current assets are recognised as deferred revenue in the consolidated statement of financial position and transferred to profit or loss on a systematic and rational basis over the useful lives of the related assets.

Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Group with no future related costs are recognised in profit or loss in the period in which they become receivable.

The benefit of a government loan at a below-market rate of interest is treated as a government grant, measured as the difference between proceeds received and the fair value of the loan based on prevailing market interest rates.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Retirement benefit costs

Payments to defined contribution retirement benefit plans are recognised as an expense when employees have rendered service entitling them to the contributions.

In the reporting period in which an employee has rendered services, the Group recognises the employee benefits expenses for those services in profit or loss.

The Company operates a defined contribution Mandatory Provident Fund retirement benefits scheme (the "MPF Scheme") under the Mandatory Provident Fund Schemes Ordinance for those employees who are eligible to participate in the MPF Scheme. Contributions are made based on a percentage of the employees' basic salaries and are charged to profit or loss as they become payable in accordance with the rules of the MPF Scheme. The assets of the MPF Scheme are held separately from those of the Group in an independently administered fund. The Company's employer contributions vest fully with the employees when contributed into the MPF Scheme.

Social welfare

Social welfare expenditure refers to payments for employees' social welfare system established by the Government of the People's Republic of China (the "PRC"), including social pension insurance, health care insurance, housing funds and other social welfare contributions. The Group contributes on a monthly basis to these funds based on certain percentage of the salaries of the employees and the contributions are recognised in profit or loss for the period when employees have rendered service entitling them to the contribution. The Group's liabilities in respect of these funds are limited to the contribution payable in the reporting period.

Share option expenses

The Group operates a share option scheme for the purpose of providing incentives and rewards to eligible persons for their contributions to the Group.

For grants of share options that are conditional upon satisfying specified vesting conditions, the fair value of services received is determined by reference to the fair value of share options granted at the grant date and is expensed on a straight-line basis over the vesting period, with a corresponding increase in equity (share options reserve).

At the end of the reporting period, the Group revises its estimates of the number of options that are expected to ultimately vest. The impact of the revision of the original estimates, if any, is recognized in profit or loss such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to share options reserve.

For share options that vest immediately at the date of grant, the fair value of the share options granted is expensed immediately to profit or loss.

When share options are exercised, the amount previously recognised in share options reserve will be transferred to share premium. When share options are forfeited after the vesting date or are still not exercised at the expiry date, the amount previously recognised in share options reserve will be transferred to retained earnings.

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

Current tax

The tax currently payable is based on taxable profit for the year. Taxable profit differs from 'profit before tax' as reported in the consolidated statement of profit or loss and other comprehensive income because of items of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The Company's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Taxation (continued)

Deferred tax

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such deferred tax assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries and associates, and interests in joint ventures, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realised, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

For the purposes of measuring deferred tax liabilities or deferred tax assets for investment properties that are measured using the fair value model, the carrying amounts of such properties are presumed to be recovered entirely through sale, unless the presumption is rebutted. The presumption is rebutted when the investment property is depreciable and is held within a business model whose objective is to consume substantially all of the economic benefits embodied in the investment property over time, rather than through sale.

Current and deferred tax for the year

Current and deferred tax are recognised in profit or loss, except when they relate to items that are recognised in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognised in other comprehensive income or directly in equity respectively. Where current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

Property, plant and equipment

Property, plant and equipment including buildings and leasehold land (classified as finance leases) held for use in the production or supply of goods or services, or for administrative purposes, are stated in the statement of financial position at cost, less subsequent accumulated depreciation and subsequent accumulated impairment losses, if any.

Construction in progress represents property, plant and equipment in the course of construction for production or for its own use purposes. Construction in progress is carried at cost less any recognized impairment loss. Construction in progress is classified to the appropriate category of property, plant and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Property, plant and equipment (continued)

Depreciation is recognised so as to write off the cost of items of property and equipment, less their residual values over their estimated useful lives, using straight-line method.

An item of property and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

	Useful lives
Building	20 years
Machinery	10 years
Computer and office equipment	5 years
Motor vehicles	5 years
Leasehold improvements	Over the lease terms

Impairment of tangible assets

At the end of each reporting period, the Group reviews the carrying amounts of its tangible assets with finite useful lives to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). When it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. When a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

When an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is calculated using the weighted average method. Net realisable value represents the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sale.

Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that the Group will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. When a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (where the effect of the time value of money is material).

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, a receivable is recognised as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments

Financial assets and financial liabilities are recognised when a group entity becomes a party to the contractual provisions of the instrument.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

Financial assets

Financial assets are classified into the following specified categories: financial assets 'at fair value through profit or loss' (FVTPL), 'held-to-maturity' investments, 'available-for-sale' (AFS) financial assets and 'loans and receivables'. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a debt instrument and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the debt instrument, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Income is recognised on an effective interest basis for debt instruments other than those financial assets classified as at FVTPL.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables (including trade receivables, pledged bank deposits and cash and cash balances) are measured at amortised cost using the effective interest method, less any impairment.

Interest income is recognised by applying the effective interest rate, except for short-term receivables where the recognition of interest would be immaterial.

Impairment of financial assets

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been affected.

For all other financial assets, objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- breach of contract, such as a default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation; or
- the disappearance of an active market for that financial asset because of financial difficulties.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Impairment of financial assets (continued)

For certain categories of financial assets, such as trade receivables, assets that are assessed not to be impaired individually are, in addition, assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period of 30 to 60 days, as well as observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets carried at amortised cost, the amount of the impairment loss recognised is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate.

For financial assets carried at cost, the amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment loss will not be reversed in subsequent periods (see the accounting policy below).

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss.

For financial assets measured at amortised cost, if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

Financial liabilities and equity instruments

Debt and equity instruments issued by a group entity are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Group are recognised at the proceeds received, net of direct issue costs.

Other financial liabilities

Other financial liabilities (including trade, bills, other payables and accruals, bank borrowings and amount due to a director) are subsequently measured at amortised cost using the effective interest method.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial liability, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Interest expense is recognised on an effective interest basis other than financial liabilities classified as at FVTPL.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Derecognition

The Company derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group continues to recognise the asset to the extent of its continuing involvement and recognises an associated liability. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

On derecognition of a financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised in other comprehensive income and accumulated in equity is recognised in profit or loss.

On derecognition of a financial asset other than in its entirety, the Group allocates the previous carrying amount of the financial asset between the part it continues to recognise, and the part it no longer recognises on the basis of the relative fair values of those parts on the date of the transfer. The difference between the carrying amount allocated to the part that is no longer recognised and the sum of the consideration received for the part no longer recognised and any cumulative gain or loss allocated to it that had been recognised in other comprehensive income is recognised in profit or loss. A cumulative gain or loss that had been recognised in other comprehensive income is allocated between the part that continues to be recognised and the part that is no longer recognised on the basis of the relative fair values of those parts.

The Company derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or they expire. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

Cash and bank balances

For the purpose of the consolidated statements of cash flows, cash and cash equivalents comprise cash on hand and demand deposits which are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

For the purpose of the consolidated statements of financial position, cash and bank balances comprise cash on hand and at banks, including term deposits, which are not restricted to use.

Contingent liabilities and contingent assets

A contingent liability is a possible obligation that arises from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group. It can also be a present obligation arising from past events that is not recognised because it is not probable that outflow of economic resources will be required or the amount of obligation cannot be measured reliably. A contingent liability is not recognised but is disclosed. When a change in the probability of an outflow occurs so that outflow is probable, they will then be recognised as a provision.

A contingent asset is a possible asset that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group. A contingent asset is not recognised but is disclosed when an inflow of economic benefits is probable. When inflow is virtually certain, an asset is recognised.

Related parties transactions

A party is considered to be related to the Group if:

(1) A person or a close member of that person's family is related to the Group if that person:

- (i) has control or joint control over the Group;
- (ii) has significant influence over the Group; or
- (iii) is a member of the key management personnel of the Group or of a parent of the Group.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Related parties transactions (continued)

(2) An entity is related to the Group if any of the following condition applies:

- (i) The entity and the Group are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to others).
- (ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).
- (iii) Both entities are joint ventures of the same third party.
- (iv) One entity is a joint venture of a third entity and the other entity is an associate of the third party.
- (v) The entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group. If the Group is itself such a plan, the sponsorship employers are also related to the Group.
- (vi) The entity is controlled or jointly controlled by a person identified in (1).
- (vii) A person identified in (1)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

Close family members of an individual are those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity.

A transaction is considered to be a related party transaction when there is a transfer of resources and obligations between related parties.

Segment reporting

Operating segments, and the amounts of each segment item reported in the consolidated financial statements, are identified from the financial information provided regularly to the Group's most senior executive management for the purposes of allocating resources to, and assessing the performance of, the Group's various lines of business and geographical locations.

Individually material operating segments are not aggregated for financial reporting purposes unless the segments have similar economic characteristics and are similar in respect of the nature of products and services, the nature of production processes, the type or class of customers, the methods used to distribute the products or provide the services, and the nature of the regulatory environment. Operating segments which are not individually material may be aggregated if they share a majority of these criteria.

5. KEY SOURCES OF ESTIMATION UNCERTAINTY

In the process of applying the Group's accounting policies which are described in Note 4, management has made certain key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, that may have a significant risk of causing a material adjustment to the carrying amount of assets and liabilities within the next year, are discussed below:

Income taxes

The Company is subject to PRC income taxes. Significant judgement is required in determining the provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The Company recognises liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such difference will impact the income tax and deferred tax provisions in the period in which such determination is made.

Useful lives and residual values of property, plant and equipment

In determining the useful life and residual value of an item of property, plant and equipment, the Group has to consider various factors, such as technical or commercial obsolescence arising from changes or improvements in production, or from a change in the market demand for the product or service output of the asset, expected usage of the asset, expected physical wear and tear, the care and maintenance of the asset, and legal or similar limits on the use of the asset. The estimation of the useful life of the asset is based on the experience of the Group with similar assets that are used in a similar way. Additional depreciation is made if the estimated useful lives and/or the residual values of items of property, plant and equipment are different from the previous estimation. Useful lives and residual values are reviewed at the end of the reporting period based on changes in circumstances.

6. FINANCIAL INSTRUMENTS

Financial instruments by category

The carrying amount of each of the categories of financial instruments as at the end of the reporting period is as follows:

The Group

	2014 RMB'000	2013 RMB'000
Financial assets		
Loan and receivables		
– Trade receivables	105,797	95,337
– Pledged bank deposits	660	2,278
– Cash and bank balances	92,481	45,834
	198,938	143,449
Financial liabilities		
At amortised cost		
– Trade, bills, other payables and accruals	95,615	84,132
– Amount due to a director	–	2,808
– Bank borrowings	11,000	21,200
	106,615	108,140

Financial risk management objective and policies

The Company's major financial instruments include trade receivables, pledged bank deposits, cash and bank balances, trade, bills, other payables and accruals, amount due to a director and bank borrowings. The details of these financial instruments are disclosed in respective notes. The risks associated with these financial instruments and the policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

The main risks arising from the Group's financial instruments are credit risk, liquidity risk, interest rate risk and currency risk. The directors review and agree policies for managing each of these risks and they are summarised below.

Credit risk

The Group's maximum exposure to credit risk which will cause a financial loss to the Group due to failure to discharge an obligation by the counterparties is arising from the carrying amount of the respective recognised financial assets as stated in the consolidated statement of financial position.

The Group has concentration of credit risk on the trade receivables from its major customers. The management is of the view that these trade debtors of the Group have good trade record without default history and consider that the trade receivable from these customers is recoverable.

In order to minimise the credit risk, the management of the Group has credit approvals and other monitoring procedures to ensure that follow-up action is taken on a timely basis and adequate impairment losses are made for irrecoverable amounts overdue. In this regards, the directors consider that the Group's credit risk is significantly reduced.

Substantially all of the Group's cash and bank balances are mainly deposited in the state controlled PRC banks which the directors assessed the credit risk to be insignificant.

6. FINANCIAL INSTRUMENTS (continued)

Financial risk management objective and policies (continued)

Liquidity risk

Liquidity risk is the risk that funds will not be available to meet liabilities as they fall due, and it results from amount and maturity mismatches of assets and liabilities. The Group will consistently maintain a prudent financial policy and ensure that it maintains sufficient cash to meet its liquidity requirements.

The Group's financial assets and financial liabilities are analysed into relevant maturity groupings based on the remaining period at the respective end of the reporting periods to the contractual maturity date, using the contractual undiscounted cash flows, as follows:

The Group

	Weighted average interest rate %	**Carrying amount RMB'000**	**On demand RMB'000**	**Within 1 year RMB'000**	**Over 1 year RMB'000**	**Total undiscounted cash flows RMB'000**
31 December 2014						
Financial liabilities						
Trade, bills, other payables and accruals	–	95,615	–	95,615	–	95,615
Bank borrowings	7.15	11,000	–	11,000	–	11,000
		106,615	**–**	**106,615**	**–**	**106,615**

	Weighted average interest rate %	Carrying amount RMB'000	On demand RMB'000	Within 1 year RMB'000	Over 1 year RMB'000	Total undiscounted cash flows RMB'000
31 December 2013						
Financial liabilities						
Trade, bills, other payables and accruals	–	84,132	–	84,132	–	84,132
Amount due to a director	–	2,808	2,808	–	–	2,808
Bank borrowings	7.40	21,200	–	21,200	–	21,200
		108,140	2,808	105,332	–	108,140

6. FINANCIAL INSTRUMENTS (continued)

Financial risk management objective and policies (continued)

Liquidity risk (continued)

The Company

	Weighted average interest rate %	Carrying amount RMB'000	On demand RMB'000	Within 1 year RMB'000	Over 1 year RMB'000	Total undiscounted cash flows RMB'000
31 December 2014						
Financial liabilities						
Accruals	–	1,093	–	1,093	–	1,093

	Weighted average interest rate %	Carrying amount RMB'000	On demand RMB'000	Within 1 year RMB'000	Over 1 year RMB'000	Total undiscounted cash flows RMB'000
31 December 2013						
Financial liabilities						
Accruals	–	3,673	–	3,673	–	3,673
Amount due to a director	–	2,808	2,808	–	–	2,808
		6,481	2,808	3,673	–	6,481

Interest rate risk

The Group's exposure to changes in interest rates is mainly attributable to its bank borrowings. Bank borrowings at variable rates expose the Group to cash flow interest rate risk. The Group's income and operating cash flows are substantially independent of changes in market interest rates. The Group currently does not have any interest rate hedging policy. However, the management monitors interest rate exposure and will consider hedging significant interest rate exposure should the need arise.

6. FINANCIAL INSTRUMENTS (continued)

Financial risk management objective and policies (continued)

Interest rate risk (continued)

Sensitivity analysis

Regarding the cash flow interest rate risk, the sensitivity analysis set out below have been determined based on the exposure to interest rates for both derivative and non-derivative instruments at the end of the reporting period. For variable rate borrowings, the analysis is prepared assuming the amount of liability outstanding at the end of the reporting period was outstanding for the whole year. A 50 basis point increase or decrease is used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates.

If interest rates had been 50 basis points higher/lower and all other variables were held constant, the Group's profit for the year would decrease/increase by approximately RMB122,000 (2013: RMB84,000). This is mainly attributable to the Group's exposure to interest rates on its variable rate borrowings.

Currency risk

Foreign exchange risk arises when future commercial transactions or recognised assets and liabilities are denominated in a currency that is not the entity's functional currency.

The main operations of the Group were in the PRC and most of the transactions were denominated in RMB. The Company did not use any derivative financial instruments to hedge for its foreign exchange risk exposure during the year.

The foreign currency assets and liabilities held by the Group are not material compared to the total assets and liabilities. In terms of the Group's revenue structure, a majority of the business transactions are denominated in RMB, and the proportion of foreign currency transactions are not significant to the Group.

The directors consider that the currency risk of the Group's operations is immaterial due to the relatively low proportion of the Group's foreign currency denominated assets, liabilities, income and expense, as compared to the Group's total assets, liabilities, income and expense. Hence, no further analysis is presented.

Fair value of financial instruments

The fair values of financial assets and financial liabilities are determined as follows:

(i) the fair values of financial assets and financial liabilities with standard terms and conditions and traded on active liquid markets are determined with reference to quoted market prices; and

(ii) the fair values of other financial assets and financial liabilities are determined in accordance with generally accepted pricing models based on discounted cash flow analysis.

The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 based on the degree to which the fair value is observable at the end of each reporting period.

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

6. FINANCIAL INSTRUMENTS (continued)

The directors consider that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the Group's statements of financial position approximate to their fair values.

No analysis is disclosed since the Group has no financial instruments that are measured subsequent to initial recognition at fair value at the end of the reporting period.

There were no transfer between Level 1 and 2 during the years.

Capital risk management

The primary objective of the Group's capital management is to safeguard the Group's ability to continue as a going concern and to maintain healthy capital ratios in order to support its business and maximize shareholders' value. The Group manages the capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. No changes were made in the objectives, policies or processes for managing capital during the years.

The directors monitor capital using a gearing ratio, which is total debts divided by total equity. The Group's policy is to keep the gearing ratio at a reasonable level. The gearing ratios at the end of the reporting periods are as follows:

	2014 **RMB'000**	2013 RMB'000
Total debts (note)	**11,000**	24,008
Total equity	**276,169**	138,678
Gearing ratio	**4.0%**	17.3%

Note: Total debts comprise of amount due to a director (Note 25) and bank borrowings (Note 26) respectively.

7. 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 2014 (2013: Nil).

During the years ended 31 December 2014 and 2013, all revenue was derived from customers in the PRC.

Included in revenue arising from sales of paper-based packaging products for the year ended 31 December 2014, approximately RMB37,702,000 (2013: RMB36,492,000) was 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 2014 (2013: Nil).

8. 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:

	2014 RMB'000	2013 RMB'000
Flexo-printed cartons	**265,760**	232,766
Offset-printed cartons		
– Traditional paper-based cartons	**147,223**	133,201
– Stone-paper based cartons	**78,540**	17,082
	491,523	383,049

9. OTHER REVENUE

	2014 RMB'000	2013 RMB'000
Sales of residual materials	**803**	729
Bank interest income	**362**	192
	1,165	921

10. OTHER INCOME

	2014 RMB'000	2013 RMB'000
Tax concession (Note a)	**10,334**	7,945
Government subsidies (Note b)	**270**	–
Exchange gain	**163**	–
	10,767	7,945

Note:

(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.

11. PROFIT BEFORE TAX

Profit before tax has been arrived at after charging:

	2014 RMB'000	2013 RMB'000
Staff costs:		
Employee benefit expense (including directors' remuneration (Note 12)):		
Wages and salaries	**25,173**	17,795
Retirement benefit schemes contributions	**4,000**	2,356
	29,173	20,151
Other items:		
Cost of inventories sold	**374,245**	293,443
Depreciation of property, plant and equipment (Note 18)	**7,403**	3,855
Auditors' remuneration	**750**	891
Amortisation of prepaid lease payments (Note 19)	**60**	60
Loss on disposal of property, plant and equipment	**–**	2
Minimum lease payments under operating leases of rented premises	**164**	–
Research and development costs	**2,976**	3,123
Equity-settled share option expenses	**4,274**	–

12. DIRECTORS' AND KEY MANAGEMENT PERSONNEL EMOLUMENTS

(a) Directors' emoluments

Details of Directors' emoluments are as follows:

	2014 RMB'000	2013 RMB'000
Fees	**325**	–
Other emoluments:		
Salaries, allowances and benefits in kind	**1,852**	1,521
Retirement benefit schemes contributions	**11**	8
Total	**2,188**	1,529

12. DIRECTORS' AND KEY MANAGEMENT PERSONNEL EMOLUMENTS (CONTINUED)

(b) Directors' emoluments

	Fees RMB'000	Salaries, allowances and other benefits in kind RMB'000	Retirement benefit scheme contributions RMB'000	Total remuneration RMB'000
31 December 2014				
Executive directors				
Mr. Chen Wei Wei	**–**	**835**	**11**	**846**
Ms. Hu Li Yu	**–**	**235**	**–**	**235**
Mr. Sun Shao Hua	**–**	**782**	**–**	**782**
Independent non-executive directors				
Mr. Liu Da Jin	**95**	**–**	**–**	**95**
Mr. Ma Yiu Ho, Peter	**135**	**–**	**–**	**135**
Mr. Wu Ping	**95**	**–**	**–**	**95**
	325	**1,852**	**11**	**2,188**

	Fees RMB'000	Salaries, allowances and other benefits in kind RMB'000	Retirement benefit scheme contributions RMB'000	Total remuneration RMB'000
31 December 2013				
Executive directors				
Mr. Chen Wei Wei	–	763	8	771
Ms. Hu Li Yu	–	48	–	48
Mr. Sun Shao Hua	–	710	–	710
Independent non-executive directors				
Mr. Liu Da Jin	–	–	–	–
Mr. Ma Yiu Ho, Peter	–	–	–	–
Mr. Wu Ping	–	–	–	–
	–	1,521	8	1,529

The Group does not have any chief executive officer during the years.

During the years, no emoluments were paid by the Group to the Directors as an inducement to join or upon joining the Group or as compensation for loss of office. There was no arrangement under which a director waived or agreed to waive any emoluments during the years.

12. DIRECTORS' AND KEY MANAGEMENT PERSONNEL EMOLUMENTS (continued)

(c) Five highest paid employees

The five highest paid employees of the Group are analysed as follows:

	2014 **RMB'000**	2013 RMB'000
Directors	**1,628**	1,481
Non-directors	**1,656**	1,152
	3,284	2,633

The five highest paid individuals in the Group during both years included 2 (2013: 2) directors; details of whose emoluments are set out in Note 12(b). The emoluments of the remaining 3 (2013: 3) individuals are as follows:

	2014 **RMB'000**	2013 RMB'000
Salaries, allowances and benefits in kind	**1,627**	1,147
Retirement benefit schemes contributions	**29**	5
	1,656	1,152

The number of these non-directors, being the five highest paid employees whose remuneration fell within the following band is as follows:

	2014	2013
Nil to HK$1,000,000	**2**	3
HK$1,000,001 to HK$2,000,000	**1**	–
	3	3

Included in the five highest paid employees, the number of senior management (being the non-directors employees) whose remuneration fell within the following band is as follows:

	2014	2013
Nil to HK$1,000,000	**1**	2
HK$1,000,001 to HK$2,000,000	**1**	–
	2	2

Note: The band was denominated in HK$ and the remunerations of the respective employees were translated at the average rate of RMB to HK$ for each year for the disclosure purpose.

During the years, no emoluments were paid by the Group to the non-directors, being the five highest paid employees as an inducement to join or upon joining the Group or as compensation for loss of office. None of the non-directors, highest paid employees waived or agreed to waive any emoluments during the years.

13. FINANCE COSTS

	2014 RMB'000	2013 RMB'000
Interest expenses on bank borrowings wholly repayable within one year	**1,781**	1,056

14. INCOME TAX EXPENSES

	2014 RMB'000	2013 RMB'000
The PRC Enterprise Income Tax		
– Current tax	**12,715**	14,845
– Under provision in prior year	**1,164**	678
Total income tax recognised in profit or loss	**13,879**	15,523

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 year. 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 (2013: 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.

The reconciliation between the income tax expenses and accounting profit at applicable income tax rates is as follows:

	2014						2013					
	Hong Kong		**The PRC**		**Total**		Hong Kong		The PRC		Total	
	RMB'000	**%**	**RMB'000**	**%**	**RMB'000**	**%**	RMB'000	%	RMB'000	%	RMB'000	%
Profit/(loss) before tax	**(15,743)**		**91,744**		**76,001**		(2,853)		62,713		59,860	
Tax at applicable Income tax rates	**(2,598)**	**16.5**	**22,936**	**25.0**	**20,338**	**26.8**	(471)	16.5	15,678	25.0	15,207	25.4
Preferential income tax treatments	**–**	**–**	**(8,476)**	**(9.3)**	**(8,476)**	**(11.2)**	–	–	–	–	–	–
Tax effect of expenses or income not deductible or taxable for tax purpose	**–**	**–**	**(1,863)**	**(2.0)**	**(1,863)**	**(2.4)**	–	–	(833)	(1.3)	(833)	(1.4)
Under provision in prior year	**–**	**–**	**1,164**	**1.3**	**1,164**	**1.5**	–	–	678	1.1	678	1.1
Tax effect of tax loss not recognised	**2,598**	**(16.5)**	**118**	**0.1**	**2,716**	**3.6**	471	(16.5)	–	–	471	0.8
Tax charge for the year	**–**	**–**	**13,879**	**15.1**	**13,879**	**18.3**	–	–	15,523	24.8	15,523	25.9

15. PROFIT ATTRIBUTABLE TO OWNERS OF THE COMPANY

The consolidated profit attributable to the owners of the Company for the year included a loss of approximately RMB15,740,000 (2013: RMB2,846,000) which has been dealt with in the financial statements of the Company.

16. DIVIDENDS

The directors do not recommend payment of any dividends for the year (2013: Nil).

17. 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

	2014	2013
	RMB'000	RMB'000
Profit attributable to the owners of the Company for the purpose of basic and diluted earnings per share	**62,122**	44,337

Number of shares

	2014	2013
Weighted average number of ordinary shares for the purpose of basic earnings per share	**793,424,658**	600,000,000
Effect of dilutive potential ordinary shares:		
Share options issued by the Company	**57,329**	–
Weighted average number of ordinary shares for the purpose of diluted earnings per share	**793,481,987**	600,000,000

Basic earnings per share for the years ended 31 December 2013 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 year ended 31 December 2014 is 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 number of ordinary shares as above is adjusted by the number of shares that would have been issued assuming the exercise of share options.

Diluted earnings per share for the year ended 31 December 2013 were the same as the basic earnings per share as there were no potential dilutive ordinary shares in issue during the year ended 31 December 2013.

18. PROPERTY, PLANT AND EQUIPMENT

The Group

	Machinery RMB'000	Computer and office equipment RMB'000	Motor vehicles RMB'000	Buildings RMB'000	Leasehold improvements RMB'000	Construction-in-progress RMB'000	Total RMB'000
Cost							
At 1 January 2013	25,823	535	560	20,593	–	19,375	66,886
Additions	11,716	26	125	–	–	24,145	36,012
Disposals	–	(70)	(97)	–	–	–	(167)
At 31 December 2013 and 1 January 2014	37,539	491	588	20,593	–	43,520	102,731
Additions	76,750	25	–	1,000	125	–	77,900
Transfer	–	–	–	43,520	–	(43,520)	–
At 31 December 2014	114,289	516	588	65,113	125	–	180,631
Accumulated depreciation							
At 1 January 2013	10,746	274	422	5,055	–	–	16,497
Charge for the year	2,767	72	38	978	–	–	3,855
Written back on disposals	–	(66)	(92)	–	–	–	(158)
At 31 December 2013 and 1 January 2014	13,513	280	368	6,033	–	–	20,194
Charge for the year	5,006	76	59	2,212	50	–	7,403
At 31 December 2014	18,519	356	427	8,245	50	–	27,597
Carrying amounts							
At 31 December 2014	**95,770**	**160**	**161**	**56,868**	**75**	**–**	**153,034**
At 31 December 2013	24,026	211	220	14,560	–	43,520	82,537

Assets pledged as security

As at 31 December 2014, machinery with a carrying amount of approximately RMB14,915,000 (2013: Nil) have been pledged to secure bank borrowings (Note 26) granted to the Group.

As at 31 December 2014, no buildings (2013: Buildings with a carrying amount of approximately RMB14,560,000) have been pledged to secure bank borrowings (Note 26) granted to the Group.

As at 31 December 2014, no construction-in-progress (2013: construction-in-progress with a carrying amount of approximately RMB43,520,000) have been pledged to secure bank borrowings (Note 26) granted to the Group.

18. PROPERTY, PLANT AND EQUIPMENT (continued)

The Company

	Leasehold improvements RMB'000
Cost	
At 1 January 2013, 31 December 2013 and 1 January 2014	–
Additions	125
At 31 December 2014	125
Accumulated depreciation	
At 1 January 2013, 31 December 2013 and 1 January 2014	–
Charge for the year	50
At 31 December 2014	50
Carrying amounts	
At 31 December 2014	**75**
At 31 December 2013	–

19. PREPAID LEASE PAYMENTS

The Group

Prepaid lease payments represent prepayment by the Group for the land use rights located in the PRC which are held on leases for 50 years.

	2014 RMB'000	2013 RMB'000
Analysed for reporting purposes as:		
Current assets (included in prepayments) (Note 22)	**60**	60
Non-current assets	**2,375**	2,435
	2,435	2,495

Amortisation on prepaid lease payments of approximately RMB60,000 (2013: RMB60,000) have been charged to the administrative expenses in profit or loss for the year.

As at 31 December 2014, no prepaid lease payments (2013: prepaid lease payments with a carrying amount of approximately RMB2,495,000) have been pledged to secure bank borrowings (Note 26) granted to the Group.

20. INVENTORIES

The Group

	2014 RMB'000	2013 RMB'000
Raw materials	**12,134**	8,602
Work in progress	**2,648**	845
Finished goods	**3,108**	1,380
	17,890	10,827

21. TRADE RECEIVABLES

The Group

	2014 RMB'000	2013 RMB'000
Trade receivables	**105,797**	95,337

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:

	2014 RMB'000	2013 RMB'000
0 – 30 days	**55,635**	51,553
31 – 60 days	**50,162**	43,784
	105,797	95,337

The average credit period on sales of goods is from 30 to 60 days. No interest is charged on trade receivables for the first 60 days from the date of the invoice. Thereafter, penalty may be charged at 0.3% per day on the outstanding balance over the granted credit period. 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 (2013: Nil) as these customers had no recent history of default.

The Company 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 2014 approximately RMB4,713,000 (2013: RMB4,079,000) is due from the group's largest customer. At 31 December 2014, no customers represent more than 5% of the total balance of trade receivables (2013: Nil) and hence the concentration of credit risk is limited.

As at 31 December 2014, no trade receivables were past due but not impaired (2013: Nil).

21. TRADE RECEIVABLES (continued)

Movement in the allowance for doubtful debts

	2014 RMB'000	2013 RMB'000
Balance at beginning of the year	–	95
Amount written off during the year as uncollectible	–	(95)
Balance at the end of the year	–	–

22. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

The Group

	2014 RMB'000	2013 RMB'000
Prepaid lease payments (Note 19)	60	60
Prepayments, deposits and other receivables	9,527	2,593
	9,587	2,653

The Company

	2014 RMB'000	2013 RMB'000
Prepayments, deposits and other receivables	45	2,097

23. PLEDGED BANK DEPOSITS/CASH AND BANK BALANCES

The Group

Pledged bank deposits represent deposits pledged to banks to secure bills payables granted to the Group. The pledged bank deposits will be released upon the settlement of relevant bills payables (Note 24).

Included in the cash and bank balances as at 31 December 2014, amount of RMB91,183,000 (2013: RMB45,630,000) are subject to the foreign exchange control restrictions imposed by the government of the PRC.

Bank balances carry interest at market rates which range from 0.01% to 0.35% per annum for both years.

24. TRADE, BILLS, OTHER PAYABLES AND ACCRUALS

The Group

	2014 RMB'000	2013 RMB'000
Trade payables	76,909	70,309
Bills payables	660	2,278
Accruals	9,880	11,083
Other payables	8,166	462
	95,615	84,132

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

	2014 RMB'000	2013 RMB'000
0 – 30 days	40,422	36,622
31 – 60 days	36,487	33,687
	76,909	70,309

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 2014, the bills payables of approximately RMB660,000 (2013: RMB2,278,000) were secured by the bank deposits respectively (Note 23).

The Company

	2014 RMB'000	2013 RMB'000
Accruals	1,093	3,673

25. AMOUNT DUE TO A DIRECTOR

The Group and the Company

The amount due to a director was unsecured, interest-free and was fully repaid in March 2014.

26. BANK BORROWINGS

The Group

	2014 **RMB'000**	2013 RMB'000
Secured	**11,000**	21,200

The short-term bank loans were repayable within one year from the end of the reporting period. All the bank borrowings were denominated in RMB. As at 31 December 2014, the bank borrowings were secured by certain property, plant and equipment held by the Group as set out in Note 18.

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

	2014	2013
Fixed rate	**6.6% to 7.8%**	7.2% to 7.8%

27. CAPTITAL AND RESERVES

(a) Share capital

The Group and the Company

	Number of shares '000	**Share capital** HK$'000
Authorised:		
Ordinary shares of HK$0.01 each	8,000,000	80,000

	Number of shares '000	**Share capital** HK$'000	RMB'000
Issued and fully paid:			
On the date of incorporation and 31 December 2013	–	–	–
Issue of shares			
– Capitalisation issue	600,000	6,000	4,715
– Share offer	200,000	2,000	1,572
At 31 December 2014	**800,000**	**8,000**	**6,287**

As at 31 December 2013, the share capital represents the issued share capital of the Company of HK$1 divided into 100 shares of HK$0.01 each.

27. CAPTITAL AND RESERVES (continued)

(a) Share capital (continued)

The Group and the Company (continued)

(i) The Company was incorporated on 12 July 2013 in the Cayman Islands under the Companies Law, as an exempted company with limited liability with an authorised share capital of HK$380,000 divided into 38,000,000 shares of HK$0.01 each. Following its incorporation, one subscriber's share of HK$0.01 was allotted and issued as fully paid and was transferred to Novel Blaze.

(ii) On 26 August 2013, Novel Blaze credited and fully paid up the nil-paid subscriber share of HK$0.01.

(iii) On 26 August 2013, the Company, through Rich Kirin, acquired the entire issued share capital of Big Wealth from Sino Hi-Tech, in consideration of which, the Company allotted and issued 77 shares to Novel Blaze, 5 shares to Zhen Xing, 5 shares to Celestial Key and 12 shares to Profit Rocket.

(iv) On 13 December 2013, the authorised share capital of the Company was increased from 38,000,000 shares of HK$0.01 each to 8,000,000,000 shares of HK$0.01 each by the creation of a further 7,962,000,000 shares. The issued share capital of the Company was 100 shares of HK0.01 each, which was allotted and issued as fully paid.

(v) Upon the completion of the public offering and placing of the Company's shares on 13 January 2014, the Company capitalised an amount of HK$5,999,999 standing to the credit of the share premium account of the Company by applying such sum in paying up in full at par of 599,999,900 shares, each of which to be allotted and issued to the shareholder of the Company appearing on the register of members of the Company on 13 December 2013 in proportion to their respective shareholdings.

(vi) On 13 January 2014, the shares of the Company became listed on the Main Board of the Stock Exchange, pursuant to which 200,000,000 ordinary shares of HK$0.01 each were issued at a price of HK$0.51 per share by the Company.

(vii) The aggregate net proceeds received by the Company from the global offering amounted to approximately HK$73.1 million (equivalent to approximately RMB57.7 million) after deducting underwriting commissions and all related expenses. The Company was intended to use the net proceeds for (i) setting up new production lines; (ii) enhancing the research and development capabilities; (iii) construction of new production block; and (iv) general working capital.

(b) Reserves

The Group

The amounts of the Group's reserves and the movements therein for the current year and prior year are presented in the consolidated statements of changes in equity.

(i) Statutory reserve

In accordance with the relevant laws and regulations of the PRC, the subsidiary established in the PRC are required to provide for PRC statutory reserve, by way of transfer 10% of the profit after taxation to the statutory reserve until such reserve reaches 50% of the registered Capital of the PRC Subsidiary. Subject to the certain restrictions set out in the Company Law of the PRC, part of the statutory reserve may converted to increase paid-up capital/issued capital of the PRC subsidiary, provided that the remaining balance after capitalisation is not less than 25% of the registered capital. The statutory reserve of the PRC subsidiary was RMB20,105,000 as at 31 December 2014 (2013: RMB12,559,000).

(ii) Exchange reserve

Exchange reserve comprise all foreign exchange difference arising from the translation of the financial statements of operations that have functional currency other than RMB which are dealt with in accordance with the accounting policies as set out in Note 4.

27. CAPTITAL AND RESERVES (continued)

(b) Reserves (continued)

The Group (continued)

(iii) Other reserve

Other reserve represented the difference between the Group's shares of nominal value of the paid-up capital of the subsidiary acquired over the Group's cost of acquisition of the subsidiary under common control upon Reorganisation as detailed in Note 2.

(iv) Share option reserve

The share option reserve relates to share options granted to directors and employees under the Company's share option scheme. Items included in share option reserve will not be reclassified subsequently to profit or loss.

The Company

	Share premium RMB'000	Share option reserve RMB'000	Exchange reserve RMB'000	Accumulated losses RMB'000	Total RMB'000
At 12 July 2013 (date of incorporation)	–	–	–	–	–
Loss for the period	–	–	–	(2,846)	(2,846)
Other comprehensive income for the period	–	–	36	–	36
Total comprehensive loss for the period	–	–	36	(2,846)	(2,810)
At 31 December 2013 and 1 January 2014	–	–	36	(2,846)	(2,810)
Loss for the year	–	–	–	(15,740)	(15,740)
Other comprehensive income for the year	–	–	497	–	497
Total comprehensive loss for the year	–	–	497	(15,740)	(15,243)
Equity-settled share-option expenses	–	4,274	–	–	4,274
Issue of shares					
– Capitalisation issue	(4,715)	–	–	–	(4,715)
– Share offer	78,580	–	–	–	78,580
Expenses incurred in connection with the issue of ordinary shares	(9,277)	–	–	–	(9,277)
At 31 December 2014	**64,588**	**4,274**	**533**	**(18,586)**	**50,809**

27. CAPTITAL AND RESERVES (continued)

(c) 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.

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.

27. CAPTITAL AND RESERVES (continued)

(c) Share option scheme (continued)

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

31 December 2014

Name or category of participant	Option type	Number of share options: At 1 January 2014	Granted during the year	Exercised during the year	Forfeited during the year	Expired during the year	At 31 December 2014	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$
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
		–	40,000,000	–	–	–	40,000,000				

Options that were granted during the year ended 31 December 2014 have a term of three years commencing from 18 December 2014 and shall vest and become exercisable in two equal tranches on 18 December 2014 and 18 December 2015 respectively. The remaining exercisable period of 2014 tranche 1 and 2 were approximately 3 and 2 years respectively.

At 31 December 2014, the number of shares in respect of which share options had been granted and remained outstanding under the Scheme was 40,000,000 (2013: Nil), representing approximately 5% (2013: Nil) of the shares of the Company in issue at that date.

The Group recognised an expense of RMB4,274,000 for the year ended 31 December 2014 (2013: Nil) in relation to share options granted by the Company.

27. CAPTITAL AND RESERVES (continued)

(c) Share option scheme (continued)

The fair value of the share options is determined using the Black-Scholes Option Pricing Model. The Black-Scholes Model calculates the price variation over time of financial instruments such as stocks that can be used to determine the price of share options. The model assumes that the price of heavily traded assets follow a geometric Brownian motion with constant drift and volatility. When applied to price a share option, the model incorporates the constant price variation of the stock, the time value of money, the option's strike price and the time to the option's expiry.

The variables and assumptions used in computing the fair value of the share options are based on the directors' best estimate. The value of an option varies with different variables of certain subjective assumptions.

Inputs into the model

Option type	2014 tranche 1	2014 tranche 2
Grant date share price	HK$0.65	HK$0.65
Exercise price	HK$0.65	HK$0.65
Expected volatility	59.39%	59.39%
Time to maturity	3 years	3 years
Dividend yield	0.00%	0.00%
Risk-free interest rate	0.78%	0.78%

28. INTERESTS IN SUBSIDIARIES

The Company

(a) Interests in subsidiaries

	2014 **RMB'000**	2013 RMB'000
Unlisted shares, at cost	**–**	–

(b) Amounts due from subsidiaries

	2014 **RMB'000**	2013 RMB'000
Amounts due from subsidiaries	**57,227**	1,370

The amounts due from subsidiaries are unsecured, interest free and recoverable on demand.

28. INTERESTS IN SUBSIDIARIES (continued)

The Company (continued)

(c) Particulars of subsidiaries

Name of subsidiaries	Place and date of incorporation/ establishment/ operation	Nominal value of issued share capital /registered capital /paid-up capital	Percentage of attributable equity interest and voting power held by the Company		Principal activities
			Direct	Indirect	
Rich Kirin Holdings Limited ("Rich Kirin")	The BVI, 13 June 2013	US$1	100	–	Investment holding
Big Wealth Limited ("Big Wealth")	The BVI, 18 November 2005	US$100	–	100	Investment holding
HongSheng (Jiangxi) Color Printing Packaging Co., Ltd. ("HongSheng") (Note (i))	The PRC, wholly-owned foreign enterprise 29 November 2005	Registered capital HK$100,000,000 Paid-up capital HK$90,000,000	–	100	Sales of packaging materials
Jiangxi Hongyu New Materials Environmental Friendly Paper Co., Ltd. ("Hongyu") (Note (ii))	The PRC, 6 May 2014	Registered capital RMB60,000,000 Paid-up capital Nil	–	100	Manufacture and sale of environmental friendly stone paper and stone-paper based products

Note:

(i) The registered capital of HongSheng is HK$100,000,000 in which HK$80,000,000 is being additional registered capital during the year ended 31 December 2014. As at 31 December 2014, the Group had injected HK$90,000,000 and the remaining of HK$10,000,000 will be injected prior to 22 July 2016.

(ii) The registered capital of Hongyu is RMB60,000,000. As at 31 December 2014, the Group had not injected any capital to Hongyu and the remaining of RMB60,000,000 will be injected prior to 5 May 2024.

29. PLEDGED ASSETS

The Group

Assets with the following carrying amounts have been pledged to secure bank borrowings (Note 26) and bills payable (Note 24) of the Group.

	2014 RMB'000	2013 RMB'000
Machinery (Note 18)	**14,915**	–
Buildings (Note 18)	**–**	14,560
Construction-in-progress (Note 18)	**–**	43,520
Prepaid lease payments (Note 19)	**–**	2,495
Pledged bank deposits (Note 23)	**660**	2,278
	15,575	62,853

30. MATERIAL RELATED PARTY TRANSACTIONS

Save as disclosed elsewhere in the consolidated 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 directors' remunerations as detailed in Note 12 above.

	2014 **RMB'000**	2013 RMB'000
Fees	**325**	–
Other emoluments:		
Salaries, allowances and benefits in kind	**3,270**	2,591
Retirement benefit schemes contributions	**40**	22
Total	**3,635**	2,613

31. COMMITMENTS

Operating lease commitment

The Group as lessee

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:

	2014 **RMB'000**	2013 RMB'000
Within one year	**151**	164
In the second to fifth years inclusive	**–**	150
Over five years	**–**	–
	151	314

31. COMMITMENTS (continued)

Capital commitment

	2014 RMB'000	2013 RMB'000
Authorised and contracted for capital contributions payable to subsidiaries	**67,913**	–
Construction-in-progress	**–**	1,000
Property, plant and equipment	**–**	19,393
	67,913	20,393

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.

32. NON-CASH TRANSACTIONS

During the year ended 31 December 2014, the addition of property, plant and equipment of approximately RMB9,869,000 which has been paid in previous year and accounted in deposits paid for acquisition of equipment.

During the year ended 31 December 2013, the amount due to immediate holding company was settled through the issuance of shares of Big Wealth during the process of Reorganisation.

33. APPROVAL FOR CONSOLIDATED FINANCIAL STATEMENTS

The consolidated financial statements were approved and authorised for issue by the board of directors on 23 March 2015.

Five-Year Financial Summary

A summary of the results and of the assets and liabilities of the Group for the last five financial years is prepared on the basis set out in the notes below:

Results

	Year ended 31 December				
	2014	2013	2012	2011	2010
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
TURNOVER	**491,523**	383,049	280,553	193,933	132,998
Cost of sales	**(374,245)**	(293,443)	(221,291)	(157,446)	(108,820)
Gross profit	**117,278**	89,606	59,262	36,487	24,178
Other revenue	**1,165**	921	837	591	393
Other income	**10,767**	7,945	3,903	2,300	1,019
Selling and distribution expenses	**(20,280)**	(15,792)	(11,704)	(7,743)	(5,011)
Administrative expenses	**(26,874)**	(21,764)	(11,830)	(8,666)	(5,475)
Equity-settled share option Expenses	**(4,274)**	–	–	–	–
Finance costs	**(1,781)**	(1,056)	(1,080)	(524)	(439)
PROFIT BEFORE INCOME TAX EXPENSE	**76,001**	59,860	39,388	22,445	14,665
Income tax expense	**(13,879)**	(15,523)	(5,166)	(2,852)	(1,786)
PROFIT FOR THE YEAR	**62,122**	44,337	34,222	19,593	12,879

Assets and Liabilities

	As at 31 December				
	2014	2013	2012	2011	2010
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
TOTAL ASSETS	**382,784**	251,770	154,027	108,368	88,463
TOTAL LIABILITIES	**(106,615)**	(113,092)	(76,014)	(64,674)	(64,948)
	276,169	138,678	78,013	43,694	23,515

Notes:

(i) The financial information for each of the five years ended 31 December 2014 have been prepared upon the Reorganisation as if the group structure, at the time when the Shares were listed on the Stock Exchange, had been in existence throughout the years concerned. The results for each of the three years ended 31 December 2012, and the assets and liabilities as at 31 December 2010, 2011 and 2012 have been extracted from the Prospectus dated 27 December 2013.

(ii) The summary above does not form part of the audited financial statements.