
THIS DOCUMENT IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

If you are in any doubt as to any aspect of this document, the Offers or the action to be taken, you should consult a licensed securities dealer or registered institution in securities, a bank manager, solicitor, professional accountant or other professional adviser.

If you have sold or transferred all your shares in China Packaging Group Company Limited, you should at once hand this Composite Document and the accompanying Forms of Acceptance to the purchaser(s) or transferee(s) or to the bank or licensed securities dealer or registered institution in securities or other agent through whom the sale or transfer was effected for transmission to the purchaser(s) or transferee(s).

The Stock Exchange of Hong Kong Limited and Hong Kong Exchanges and Clearing Limited take no responsibility for the contents of this Composite Document, make no representation as to their accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this Composite Document.

ABLE SUCCESS ASIA LIMITED

得勝亞洲有限公司

(Incorporated in the British Virgin Islands with limited liability)



中國包裝集團有限公司

China Packaging Group Company Limited

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 572)

COMPOSITE DOCUMENT IN RELATION TO UNCONDITIONAL MANDATORY CASH OFFERS BY



KINGSTON SECURITIES LTD.

**ON BEHALF OF ABLE SUCCESS ASIA LIMITED
FOR ALL THE ISSUED SHARES IN
CHINA PACKAGING GROUP COMPANY LIMITED
(OTHER THAN THOSE SHARES ALREADY OWNED BY
ABLE SUCCESS ASIA LIMITED AND
PARTIES ACTING IN CONCERT WITH IT)
AND TO CANCEL ALL OUTSTANDING SHARE OPTIONS**

Financial Adviser to Able Success Asia Limited



KINGSTON CORPORATE FINANCE LTD.

Independent Financial Adviser to the Independent Board Committee



粵海證券有限公司
GUANGDONG SECURITIES LIMITED

Capitalised terms used in this cover page shall have the same meanings as those defined in the section headed "Definitions" in this Composite Document.

A letter from Kingston Securities is set out on pages 7 to 14 of this Composite Document.

A letter from the Board is set out on pages 15 to 20 of this Composite Document.

A letter from the Independent Board Committee containing its recommendation in respect of the Offers to the Independent Shareholders is set out on pages 21 to 22 of this Composite Document.

A letter from Guangdong Securities containing its advice on the Offers to the Independent Board Committee is set out on pages 23 to 36 of this Composite Document.

The procedures for acceptance of the Offers and other related information are set out on pages I-1 to I-10 in Appendix I to this Composite Document and in the accompanying Form(s) of Acceptance. Acceptances of the Offers should be received by the Registrar (in respect of the Share Offer) or the company secretary of the Company (in respect of the Option Offer) by no later than 4:00 p.m. on 19 February 2013 or such later time and/or date as the Offeror may decide and announce, with the consent of the Executive, in accordance with the Takeovers Code.

29 January 2013

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EXPECTED TIMETABLE

The expected timetable set out below is indicative only and may be subject to change. Further announcement(s) will be made as and when appropriate.

2013

Despatch date of this Composite Document and commencement date of the Offers (<i>Note 1</i>)	29 January
Latest time and date for acceptance of the Offers (<i>Note 2</i>)	4:00 p.m. on 19 February
Closing Date (<i>Note 2</i>)	19 February
Announcement of the results of the Offers (<i>Note 2</i>)	not later than 7:00 p.m. on 19 February
Latest date of posting of remittances in respect of valid acceptances received under the Offers (<i>Notes 3 and 4</i>)	28 February

Notes:

1. The Offers, which are unconditional, are made on the date of posting of this Composite Document, and are capable of acceptance on and from that date until the Closing Date.
2. The Offers, which are unconditional, will be closed on the Closing Date. The latest time for acceptance is at 4:00 p.m. on 19 February 2013 unless the Offeror revises or extends the Offers in accordance with the Takeovers Code. An announcement will be issued through the Stock Exchange website by 7:00 p.m. on 19 February 2013 stating whether the Offers have been revised or extended or have expired. In the event that the Offeror decides that the Offers will remain open until further notice, at least 14 days' notice by way of an announcement will be given before the Offers are closed to those Independent Shareholders who have not accepted the Offers.
3. Remittances in respect of the cash consideration payable for the Shares or Share Options tendered under the Offers will be made as soon as possible, but in any event within 7 Business Days of the date of receipt by the Registrar (in respect of the Share Offer) or the company secretary of the Company (in respect of the Option Offer) from the Independent Shareholders and Option Holders accepting the Offers of all documents to render the acceptance valid.

Acceptances of the Offers shall be irrevocable and not capable of being withdrawn, except in the circumstances as set out in the section headed "Right of withdrawal" in Appendix I to this Composite Document.
4. If there is a tropical cyclone warning signal number 8 above, or a "black" rainstorm warning in force in Hong Kong:
 - (a) at any local time before 12:00 noon but no longer in force after 12:00 noon on the latest date for acceptance of the Offers and the latest date for posting of remittances for the amounts due under the Offers in respect of valid acceptances, the latest time for acceptance of the Offers and the posting of remittances will remain at 4:00 p.m. on the same Business Day.
 - (b) at any local time between 12:00 noon and 4:00 p.m. on the latest date for acceptance of the Offers and the latest date for posting of remittances for the amounts due under the Offers in respect of valid acceptances, the latest time for acceptance of the Offers and the posting of remittances will be rescheduled to 4:00 p.m. on the following Business Day which does not have either of those warnings in force at any time between 9:00 a.m. and 4:00 p.m.

All time and date references contained in this Composite Document and the Forms of Acceptance refer to Hong Kong time and dates.

DEFINITIONS

In this Composite Document, unless the context otherwise requires, the following expressions have the following meanings:

“acting in concert”	has the meaning ascribed thereto in the Takeovers Code
“Announcement”	the announcement of the Company dated 12 December 2012 setting out, among other things, the acquisition of controlling interest in the Company by the Offeror which results in the Offers
“associate(s)”	has the same meaning as defined in the Listing Rules
“BGL”	Business Giant Limited, a company incorporated in the BVI with limited liability and wholly-owned by Mr. Leung Heung Ying, Alvin, an executive Director
“Board”	the board of Directors
“Business Day(s)”	a day on which licensed banks in Hong Kong are required to be and are generally open for business (other than any Saturday, Sunday, gazetted public holiday in Hong Kong and days on which a tropical cyclone warning signal No. 8 or above or a black rainstorm warning signal is hoisted in Hong Kong at any time between 9:00 a.m. and 5:00 p.m.)
“BVI”	the British Virgin Islands
“CCASS”	the Central Clearing and Settlement System established and operated by Hong Kong Securities Clearing Company Limited
“Closing Date”	19 February 2013, the closing date of the Offers, which is 21 days after the date on which this Composite Document is posted, or if the Offers are extended, any subsequent closing date as extended and announced by the Offeror in accordance with the Takeovers Code
“Company”	China Packaging Group Company Limited, a company incorporated in the Cayman Islands with limited liability, whose Shares are listed on the Stock Exchange
“Completion”	completion of the Sale and Purchase Agreement
“Composite Document”	this composite offer and response document jointly issued by the Offeror and the Company, which sets out, among others, details of the Offers in accordance with the Takeovers Code
“connected person(s)”	has the meaning ascribed thereto in the Listing Rules

DEFINITIONS

“Consideration”	the aggregate consideration of HK\$81,271,000 for the sale and purchase of the Sale Shares, the Sale CN and the Sale CPS under the Sale and Purchase Agreement
“Conversion Share(s)”	any new Share(s) to be allotted and issued upon exercise of the conversion rights attaching to the Convertible Notes and/or the Convertible Preference Shares
“Convertible Notes”	the outstanding 2% convertible notes of the Company in the aggregate principal amount of HK\$18,000,000 carrying rights to convert into 150,000,000 Conversion Shares at a conversion price of HK\$0.12 per Conversion Share (subject to adjustments)
“Convertible Preference Share(s)”	the 520,000,000 convertible preference share(s) of par value HK\$0.001 each of the Company which are convertible into 520,000,000 Conversion Shares at a conversion price of HK\$0.12 per Conversion Share (subject to adjustments)
“Director(s)”	the director(s) of the Company
“Encumbrances”	includes without any limitation, with respect to any asset, any option, right to acquire, right of pre-emption, mortgage, charge, pledge, lien, hypothecation, title retention, right of set-off, counterclaim, trust arrangement or other security or any equity or restriction (including any restriction imposed under the Companies Ordinance, Chapter 32 of the laws of Hong Kong)
“Executive”	the Executive Director of the Corporate Finance Division of the SFC or any of his delegates
“Facility”	a standby loan facility of not less than HK\$13.43 million granted by Kingston Securities to the Offeror pursuant to a facility letter
“Form(s) of Acceptance”	the WHITE Form of Acceptance and/or the PINK Form of Acceptance
“Group”	the Company and its subsidiaries
“Guangdong Securities” or “Independent Financial Adviser”	Guangdong Securities Limited, a licensed corporation to carry out type 1 (dealing in securities), type 2 (dealing in futures contracts), type 4 (advising on securities), type 6 (advising on corporate finance) and type 9 (asset management) regulated activities as defined under the SFO and the independent financial adviser to the Independent Board Committee in relation to the Offers

DEFINITIONS

“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“IAM”	Integrated Asset Management (Asia) Limited, a company incorporated in the BVI with limited liability and wholly-owned by Mr. Yam Tak Cheung
“Independent Board Committee”	the independent committee of the Board comprising all the non-executive Directors to advise and give recommendation to the Independent Shareholders in respect of the Offers
“Independent Shareholder(s)”	Shareholder(s) other than the Offeror and parties acting in concert with it
“Independent Third Party(ies)”	third party(ies) who is (are) independent of and not connected with the Company and its connected persons
“Irrevocable Undertaking”	the irrevocable undertaking dated 23 November 2012 (as supplemented by a supplemental undertaking dated 30 November 2012) executed by BGL in respect of the 29,000,000 Shares, the 156,000,000 Convertible Preference Shares and the Convertible Notes in the principal amount of HK\$5,400,000 owned by BGL, details of which are summarized under the section headed “Undertaking by BGL” in this Composite Document
“Kingston Corporate Finance”	Kingston Corporate Finance Limited, a licenced corporation to carry out business in type 6 (advising on corporate finance) regulated activity under the SFO
“Kingston Securities”	Kingston Securities Limited, a licensed corporation to carry out business in type 1 (dealing in securities) regulated activity under the SFO
“Last Trading Day”	22 November 2012, being the last trading day of the Shares prior to the publication of the Announcement
“Latest Practicable Date”	25 January 2013, being the latest practicable date prior to the printing of this Composite Document for ascertaining certain information contained herein
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Macau”	Macau Special Administrative Region of the PRC
“Mr. He”	Mr. He Jianhong, the sole beneficial owner and the sole director of the Offeror

DEFINITIONS

“Offers”	the Share Offer and the Option Offer
“Offer Period”	has the meaning ascribed thereto in the Takeovers Code, being the period commencing on the date of the Announcement and ending on the Closing Date
“Offer Price”	the price per Offer Share in cash at which the Share Offer will be made, being HK\$0.1213 per Offer Share
“Offer Share(s)”	issued Share(s) other than those already owned by the Offeror and parties acting in concert with it
“Offeror”	Able Success Asia Limited, a company incorporated in the BVI with limited liability which is wholly and beneficially owned by Mr. He
“Option Holder(s)”	the holder(s) of the Share Options
“Option Offer”	the mandatory unconditional cash offer to be made by Kingston Securities, on behalf of the Offeror, to cancel all outstanding Share Options at HK\$0.0001 for each Share Option in cash
“Overseas Shareholder(s)”	holder(s) of Share(s) whose addresses, as shown on the register of members of the Company, are outside Hong Kong
“Overseas Option Holder(s)”	Option Holder(s), whose addresses, as shown on the register of Option Holders of the Company, are outside Hong Kong
“PINK Form of Acceptance”	the pink form of acceptance and cancellation of Share Options in respect of the Option Offer
“PRC”	the People’s Republic of China
“Registrar”	Computershare Hong Kong Investor Services Ltd. at Shops 1712-1716, 17/F Hopewell Centre 183 Queen’s Road East, Wan Chai, Hong Kong
“Relevant Period”	the period commencing on 12 June 2012, i.e. the date falling six months preceding the date of the Announcement and ending on the Latest Practicable Date
“Sale and Purchase Agreement”	the sale and purchase agreement dated 23 November 2012 entered into among IAM, BGL (as vendors) and the Offeror (as purchaser) relating to the sale and purchase of the Sale Shares, the Sale CN and the Sale CPS

DEFINITIONS

“Sale CN”	the Convertible Notes in the principal amount of HK\$12,600,000 carrying rights to convert into 105,000,000 Conversion Shares at a conversion price of HK\$0.12 per Conversion Share (subject to adjustments)
“Sale CPS”	the 364,000,000 Convertible Preference Shares carrying rights to convert into 364,000,000 Conversion Shares at a conversion price of HK\$0.12 per Conversion Share (subject to adjustments)
“Sale Share(s)”	an aggregate of 201,000,000 Shares, of which 161,000,000 Shares are acquired by the Offeror from IAM and 40,000,000 Shares are acquired by the Offeror from BGL respectively pursuant to the terms and conditions of the Sale and Purchase Agreement
“SFC”	the Securities and Futures Commission
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the laws of Hong Kong)
“Share(s)”	ordinary share(s) of HK\$0.001 each in the issued share capital of the Company
“Share Offer”	the unconditional mandatory cash offer to be made by Kingston Securities on behalf of the Offeror for all the issued Shares (other than those already owned by the Offeror and parties acting in concert with it) in accordance with Rule 26.1 of the Takeovers Code
“Shareholder(s)”	holder(s) of Share(s)
“Share Option(s)”	share options granted by the Company pursuant to its share option scheme adopted on 2 June 2003
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Takeovers Code”	the Hong Kong Codes on Takeovers and Mergers
“Vendors”	IAM and BGL
“WHITE Form of Acceptance”	the white form of acceptance and transfer of Shares in respect of the Share Offer
“HKD” or “HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“RMB”	Renminbi, the lawful currency of the PRC
“%”	per cent

For reference only, the HK\$: RMB exchange rate is 1:0.81005 as quoted from the People’s Bank of China on the Latest Practicable Date

LETTER FROM KINGSTON SECURITIES



KINGSTON SECURITIES LTD.

Suite 2801, 28th Floor
One International Finance Centre
1 Harbour View Street, Central, Hong Kong

29 January 2013

To the Independent Shareholders and the Option Holders

Dear Sir or Madam,

**COMPOSITE DOCUMENT IN RELATION TO
UNCONDITIONAL MANDATORY CASH OFFERS BY
KINGSTON SECURITIES LIMITED
ON BEHALF OF ABLE SUCCESS ASIA LIMITED
FOR ALL THE ISSUED SHARES IN
CHINA PACKAGING GROUP COMPANY LIMITED
(OTHER THAN THOSE SHARES ALREADY OWNED BY
ABLE SUCCESS ASIA LIMITED AND
PARTIES ACTING IN CONCERT WITH IT)
AND TO CANCEL ALL OUTSTANDING SHARE OPTIONS**

INTRODUCTION

Reference is made to the Announcement.

On 23 November 2012, the Board was informed by IAM and BGL that IAM, BGL and the Offeror entered into the Sale and Purchase Agreement pursuant to which IAM and BGL agreed to sell and the Offeror agreed to purchase the Sale Shares, the Sale CN and the Sale CPS for an aggregate cash consideration of HK\$81,271,000 (equivalent to HK\$0.1213 per Sale Share and per Conversion Share). The Sale Shares represent approximately 59.00% of the entire issued share capital of the Company as at the Latest Practicable Date. Completion took place on 26 November 2012.

This letter sets out, amongst other things, details of the terms of the Offers, information on the Offeror and the intention of the Offeror regarding the Group. Further details of the terms of the Offers and the procedures for acceptance of the Offers are set out in Appendix I to this Composite Document and in the accompanying Forms of Acceptance.

LETTER FROM KINGSTON SECURITIES

UNCONDITIONAL MANDATORY GENERAL CASH OFFERS

Upon Completion, the Offeror and parties acting in concert with it are interested in 201,000,000 Shares, representing approximately 59.00% of the entire issued share capital of the Company. Save for the aforesaid, together with the Sale CN and the Sale CPS, the Offeror and parties acting in concert with it do not have any other interests in any securities of the Company. Pursuant to Rule 26.1 and Rule 13 of the Takeovers Code, the Offeror is required to make the unconditional mandatory general offers in cash for all the issued Shares and outstanding convertible securities of the Company other than those already owned by the Offeror and parties acting in concert with it and to cancel all outstanding Share Options.

As at the Latest Practicable Date, the Company has 340,662,666 Shares in issue. In addition, the Company has outstanding (i) Convertible Notes, (ii) Convertible Preference Shares; and (iii) 1,430,862 Share Options conferring rights to subscribe for a total of 1,430,862 Shares. Save for the Convertible Notes, the Convertible Preference Shares and the outstanding Share Options, the Company does not have any outstanding options, derivatives, warrants or securities which are convertible or exchangeable into Shares and has not entered into any agreement for the issue of such options, derivatives, warrants or securities which are convertible or exchangeable into Shares as at the Latest Practicable Date.

Upon Completion, the outstanding Convertible Notes of HK\$18,000,000 is owned as to: (i) HK\$12,600,000 by the Offeror carrying rights to convert into 105,000,000 Conversion Shares, being the Sale CN; and (ii) HK\$5,400,000 by BGL carrying rights to convert into 45,000,000 Conversion Shares; whereas the aggregate of 520,000,000 Convertible Preference Shares is owned as to: (i) 364,000,000 Convertible Preference Shares by the Offeror carrying rights to convert into 364,000,000 Conversion Shares, being the Sale CPS, and (ii) 156,000,000 Convertible Preference Shares by BGL, carrying rights to convert into 156,000,000 Conversion Shares.

Undertaking by BGL

Immediately after Completion, BGL remained interested in 29,000,000 Shares, 156,000,000 Convertible Preference Shares and the Convertible Notes in the principal amount of HK\$5,400,000 entitling BGL to convert into 45,000,000 Shares. Pursuant to the Irrevocable Undertaking, BGL has irrevocably undertaken to the Offeror, inter alia, that it shall not sell, transfer, dispose of, or convert (in case of the Convertible Preference Shares and the Convertible Notes) the aforesaid from the date of the Irrevocable Undertaking to the Closing Date (both days inclusive). Furthermore, it shall not accept the Share Offer in respect of the 29,000,000 Shares and any offer by the Offeror for the Convertible Preference Shares and the Convertible Notes owned by BGL pursuant to the Offeror's obligations under the Takeovers Code relating to the Sale and Purchase Agreement.

After the close of the Offers, BGL may consider selling, transferring, disposing of, or converting any outstanding Convertible Preference Shares and the Convertible Notes owned by it, depending on the then market conditions and subject to the requirements of the Listing Rules.

As at the Latest Practicable Date, BGL does not have any plan as to when and the number of outstanding Convertible Preference Shares and Convertible Notes owned by it will be converted.

LETTER FROM KINGSTON SECURITIES

Principal terms of the Offers

Taking into account the Irrevocable Undertaking, Kingston Securities will, on behalf of the Offeror, make the Offers to all the Independent Shareholders to acquire all the issued Shares, other than those already owned by the Offeror and parties acting in concert with it, and to cancel all the outstanding Share Options in compliance with the Takeovers Code on the following basis:

For every Offer Share HK\$0.1213 in cash

For every Share Option (*note*) HK\$0.0001 in cash

Note: As at the Latest Practicable Date, the exercise prices of the outstanding Share Options are HK\$4.9911, HK\$6.3968 and HK\$7.2024 respectively, which are all out-of-money. Details of the Share Options are set out in the following table:–

Date of grant	Period during which Share Options are exercisable	Exercise price per Share HK\$	Number of new Shares to be issued upon exercise of Share Options by Option Holders	Offer price per Share Option HK\$
10 February 2004	10 February 2004 to 9 February 2014	6.3968	481,175	0.0001
2 May 2007	2 May 2007 to 1 May 2017	7.2024	316,562	0.0001
30 January 2008	30 January 2008 to 29 January 2018	4.9911	633,125	0.0001

The Offer Price of HK\$0.1213 per Offer Share is equal to the price paid by the Offeror per Share issued and issuable (i.e. through the conversion of the Sale CN and the Sale CPS) under the Sale and Purchase Agreement. The Offer Shares acquired under the Share Offer shall be fully paid and free and clear from all Encumbrances and together with all rights attaching to them, including but not limited to all rights to any dividend or other distribution declared, made or paid on or after the date on which the Share Offer is made, being the date of posting of this Composite Document.

As at the Latest Practicable Date, the Company has 1,430,862 outstanding Share Options conferring rights to subscribe for a total of 1,430,862 Shares. Arrangement will be made under the Option Offer to cancel the Share Options for a nominal payment of HK\$0.0001 for each Share Option which was determined with reference to the intrinsic value of the Share Options. The exercise price of the Share Options of HK\$4.9911, HK\$6.3968 and HK\$7.2024 per Share are substantially above the Offer Price of HK\$0.1213 per Offer Share under the Share Offer and therefore the Share Options carry no intrinsic value.

LETTER FROM KINGSTON SECURITIES

Highest and lowest Share prices

The highest closing price of the Shares as quoted on the Stock Exchange during the Relevant Period was 0.300 per Share on 27 August 2012. The lowest closing price of the Shares as quoted on the Stock Exchange during the Relevant Period was 0.164 per Share on 26 July 2012.

Value of the Offers

On the basis of the Offer Price of HK\$0.1213 per Offer Share, offer price of HK\$0.0001 per outstanding Share Option and 340,662,666 Shares in issue as at the Latest Practicable Date, the entire issued share capital of the Company is valued at approximately HK\$41.32 million. Excluding the 201,000,000 Sale Shares having been acquired by the Offeror pursuant to the Sale and Purchase Agreement and the 29,000,000 Shares and all conversion shares which may be issued under the 156,000,000 Convertible Preference Shares and the Convertible Notes of HK\$5,400,000 owned by BGL pursuant to the Irrevocable Undertaking, 110,662,666 Shares will be subject to the Share Offer and 1,430,862 outstanding Share Options will be subject to the Option Offer, which in aggregate are valued at approximately HK\$13.43 million.

Financial resources available for the Offers

The Offeror will finance and satisfy the cash consideration payable under the Offers by the Facility granted by Kingston Securities.

Kingston Corporate Finance, being the financial adviser to the Offeror in respect of the Offers, is satisfied that there are sufficient financial resources available to the Offeror to satisfy full acceptances of the Offers.

Compulsory acquisition

The Offeror does not intend to apply any right which may be available to it under the Companies Act to acquire compulsorily any Shares outstanding after the close of the Offers.

Effects of accepting the Offers

By accepting the Offers, (a) the relevant Shareholders will sell their Shares to the Offeror free from Encumbrances and with all rights attached to them, including the right to receive all dividends and distributions declared, made or paid on which the Share Offer is made, that is, the date of posting of this Composite Document; and (b) as the case may be, the relevant holders of the Share Options will surrender to the Company their Share Options for cancellation by the Company.

LETTER FROM KINGSTON SECURITIES

Stamp duty

Seller's Hong Kong ad valorem stamp duty at a rate of 0.1% of the market value of the Shares or consideration payable by the Offeror in respect of the relevant acceptances of the Share Offer, whichever is higher, will be deducted from the amount payable to the relevant Shareholders on acceptance of the Share Offer. The Offeror will arrange for payment of the seller's Hong Kong ad valorem stamp duty on behalf of the accepting Shareholders and will pay the buyer's Hong Kong ad valorem stamp duty in connection with the acceptances of the Share Offer and the transfers of the Shares. No stamp duty is payable in connection with the Option Offer.

Payment

Payment in cash in respect of acceptances of the Offers, net of seller's Hong Kong ad valorem stamp duty, will be made as soon as possible but in any event within 7 Business Days (as defined in the Takeovers Code) from the date of receipt of the relevant documents of title and duly completed acceptance(s) by the Offeror to render each such acceptance complete and valid pursuant to Rule 20.1 and Note 1 to Rule 30.2 of the Takeovers Code.

Overseas Shareholders and Overseas Option Holders

The availability of the Offers to persons not resident in Hong Kong may be affected by the applicable laws of the relevant jurisdiction in which they are residents. Overseas Shareholders and Overseas Option Holders who are citizens, residents or nationals of a jurisdiction outside Hong Kong should observe any applicable legal or regulatory requirements in their own jurisdictions and, where necessary, seek legal advice. It is the responsibility of the Overseas Shareholders and Overseas Option Holders who wish to accept the Offers to satisfy themselves as to the full observance of the laws and regulations of the relevant jurisdictions in connection with the acceptance of the Offers (including the obtaining of any governmental or other consent which may be required or the compliance with other necessary formalities and the payment of any transfer or other taxes due by such Overseas Shareholders and Overseas Option Holders in respect of such jurisdictions).

The attention of the Independent Shareholders not being a resident in Hong Kong or with a registered address as shown in the register of members of the Company in Hong Kong to be outside Hong Kong is drawn to the section headed "General" in Appendix I to this Composite Document.

Comparisons of value

The Offer Price of HK\$0.1213 per Offer Share represents:

- (i) a discount of approximately 50.08% to the closing price of HK\$0.243 per Share as quoted on the Stock Exchange on 25 January 2013, being the Latest Practicable Date;
- (ii) a discount of approximately 43.32% to the closing price of HK\$0.214 per Share as quoted on the Stock Exchange on 22 November 2012, being the Last Trading Day;
- (iii) a discount of approximately 42.35% to the average closing price of approximately HK\$0.2104 per Share, being the average of the closing prices of the Shares as quoted on the Stock Exchange for the 5 trading days up to and including the Last Trading Day;

LETTER FROM KINGSTON SECURITIES

- (iv) a discount of approximately 41.79% to the average closing price of approximately HK\$0.2084 per Share, being the average of the closing prices of the Shares as quoted on the Stock Exchange for the 10 trading days up to and including the Last Trading Day; and
- (v) a discount of approximately 46.89% to the average closing price of approximately HK\$0.2284 per Share, being the average of the closing prices of the Shares as quoted on the Stock Exchange for the 30 trading days up to and including the Last Trading Day.

The Offers are unconditional and therefore are not conditional upon any minimum level of acceptances being received nor subject to any other conditions.

Please refer to the section headed “Market prices” in Appendix III to this Composite Document for further information on the market prices of the Shares.

INFORMATION ABOUT THE OFFEROR

The Offeror is an investment holding company incorporated in the BVI with limited liability. The sole shareholder and director of the Offeror is Mr. He. Immediately prior to the entering into of the Sale and Purchase Agreement, the Offeror and its ultimate beneficial shareholder are Independent Third Parties and do not hold any Shares. Other than the entering into of the Sale and Purchase Agreement, the Offeror has not conducted any business since its incorporation.

Details of Mr. He are set out in the paragraph headed “Offeror’s intention in respect of the Group” below.

As at the Latest Practicable Date, the Offeror was interested in 201,000,000 Shares, the Sale CN and the Sale CPS. Such Shares and convertible securities were acquired by the Offeror pursuant to the Sale and Purchase Agreement. Apart from the acquisition of the 201,000,000 Shares, the Sale CN and the Sale CPS by the Offeror pursuant to the Sale and Purchase Agreement during the Relevant Period, the Offeror, its sole director and their respective concert parties did not deal for value in any relevant securities of the Company.

Save for the Offeror’s interests in the issued share capital of the Company as disclosed in the paragraph above, none of the other parties acting in concert with the Offeror held any relevant securities of the Company.

OFFEROR’S INTENTION IN RESPECT OF THE GROUP

Business of the Group

The Offeror intends that the Company will continue with its existing principal activities. The Offeror does not intend to introduce any major changes to the existing operations and business of the Company. The Offeror will conduct a more detailed review on the operations of the Group with a view to formulating a comprehensive business strategy for the Group and subject to the result of the review, the Offeror may explore other business opportunities and consider whether any assets and/or business acquisitions by the Group will be appropriate in order to enhance its growth. The Offeror has no intention to discontinue the employment of the employees (save for a change in the composition of the Board) or to dispose of or deploy the assets of the Group other than those in its ordinary course of business. As at the Latest Practicable Date, the Offeror has no intention or plans for any acquisition or disposal of assets and/or business by the Group.

LETTER FROM KINGSTON SECURITIES

In view of the experience its shareholder possesses in steel trading and manufacturing business in the PRC, the Offeror considers that its experience and business network will be able to benefit the Company's development in the long run.

Change of board composition of the Company

The Board currently comprises two executive Directors and three independent non-executive Directors.

The two executive Directors, namely Mr. Leung Heung Ying, Alvin and Mr. Wong Tat Wai Derek, and Dr. Lam Andy Siu Wing *JP*, an independent non-executive Director and the chairman of the audit, remuneration and nomination committees of the Company, will resign from their office with effect from the earliest time permitted under the Takeovers Code. The Offeror will nominate Mr. He and Mr. Zhang Zhantao as executive Directors and such appointment has not taken effect earlier than the date of posting of this Composite Document subject to the requirements under the Takeovers Code. The Board will appoint a new independent non-executive Director as soon as practicable after the resignation of Dr. Lam Andy Siu Wing *JP*. In any event the Board will ensure compliance to Rules 3.10(1) and 3.11 of the Listing Rules.

The biographical details of Mr. He and Mr. Zhang Zhantao are as follows:

Mr. HE Jianhong, aged 42, is a Chinese entrepreneur engaging in the steel trading and manufacturing business. Mr. He has over 12 years' sales and marketing experience in steel and mould steel and over 10 years' production experience in mould steel. He has working experience in product development, business development, corporate strategy and corporate management. Mr. He is a director (理事) of the Shunde Young Entrepreneurs Association (順德青年企業家協會).

Mr. ZHANG Zhantao, aged 39, holder of a certificate in finance from the Guangdong Radio & TV University (廣東廣播電視大學) in September 2000. Mr. Zhang has over 10 years' working experience in a bank in the PRC. He has experience in bank finance business operations. Mr. Zhang was a chief financial controller of a Chinese enterprise for five years. He established working experience in corporate financial planning and corporate management.

An announcement will be made by the Company in respect of the change of the composition of the Board in compliance with the Listing Rules.

LETTER FROM KINGSTON SECURITIES

Maintaining the listing status of the Company

The Offeror intends to maintain the listing of the Shares on the Stock Exchange after closing of the Offers. As at the Latest Practicable Date, the Offeror intends to convert all or part of the Sale CN and Sale CPS after the close of the Offers. The sole director of the Offeror and the new Directors to be appointed to the Board will jointly and severally undertake to the Stock Exchange to take appropriate steps to ensure that sufficient public float exists in the Shares.

As at the Latest Practicable Date, notwithstanding the Offeror has intention to convert the Sale CN and the Sale CPS, it does not have any plan as to when and the number of outstanding Sale CN and Sale CPS will be converted.

The Stock Exchange has stated that if, at the closing of the Offers, less than 25% of the issued Shares are held by the public or if the Stock Exchange believes that: (i) a false market exists or may exist in the trading of the Shares; or (ii) there are insufficient Shares in public hands to maintain an orderly market, then it will consider exercising its discretion to suspend dealings in the Shares.

FURTHER TERMS OF THE OFFERS

Further terms and conditions of the Offers, including, among other things, procedures for acceptance and settlement, the acceptance period and taxation matters are set out in Appendix I to this Composite Document and in the Forms of Acceptance.

GENERAL

To ensure equality of treatment of all Shareholders, those registered Shareholders who hold Shares as nominee for more than one beneficial owner should, as far as practicable, treat the holding of each beneficial owner separately. In order for the beneficial owners of the Shares whose investments are registered in nominee names to accept the Offers, it is essential that they provide instructions to their nominees of their intentions with regard to the Offers.

The Independent Shareholders are strongly advised to consider carefully the information contained in the “Letter from the Board”, the “Letter from the Independent Board Committee” and the “Letter from Guangdong Securities” set out in this Composite Document and to consult their professional advisers as they see fit. Your attention is drawn to the additional information set out in the Appendices to this Composite Document, which form part of this Composite Document.

Yours faithfully,
For and on behalf of
Kingston Securities Limited
Nicholas Chu
Director

LETTER FROM THE BOARD



中國包裝集團有限公司 China Packaging Group Company Limited

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 572)

Executive Directors:

Leung Heung Ying, Alvin
Wong Tat Wai, Derek

Independent Non-executive Directors:

Lam Andy Siu Wing JP
Siu Siu Ling, Robert
Tam Tak Wah

Registered Office:

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

Principal office of business:

Suite 06-07, 28th Floor
Shui On Centre
6-8 Harbour Road
Wanchai, Hong Kong

29 January 2013

To the Shareholders and Option Holders

Dear Sir or Madam,

**COMPOSITE DOCUMENT IN RELATION TO
UNCONDITIONAL MANDATORY CASH OFFERS BY
KINGSTON SECURITIES LIMITED
ON BEHALF OF ABLE SUCCESS ASIA LIMITED
FOR ALL THE ISSUED SHARES IN
CHINA PACKAGING GROUP COMPANY LIMITED
(OTHER THAN THOSE SHARES ALREADY OWNED BY
ABLE SUCCESS ASIA LIMITED AND
PARTIES ACTING IN CONCERT WITH IT)
AND TO CANCEL ALL OUTSTANDING SHARE OPTIONS**

INTRODUCTION

Reference is made to the Announcement.

On 23 November 2012, the Board was informed by IAM and BGL that IAM, BGL and the Offeror entered into the Sale and Purchase Agreement pursuant to which IAM and BGL agreed to sell and the Offeror agreed to purchase the Sale Shares, the Sale CN and the Sale CPS for an aggregate cash consideration of HK\$81,271,000 (equivalent to HK\$0.1213 per Sale Share and per Conversion Share). The Sale Shares represent approximately 59.00% of the entire issued share capital of the Company as at the Latest Practicable Date.

LETTER FROM THE BOARD

The Completion took place on 26 November 2012. The Board noted from the “Letter from Kingston Securities” in this Composite Document that, as a result, the Offeror and parties acting in concert with it own 201,000,000 Shares, representing approximately 59.00% of the issued share capital of the Company, the Sale CN and the Sale CPS as at the Latest Practicable Date. Under Rule 26.1 and Rule 13 of the Takeovers Code, the Offeror is required to make the unconditional mandatory general cash offers for all the Shares and outstanding convertible securities of the Company not already owned by it and parties acting in concert with it and to cancel all outstanding Share Options. The terms of the Offers are set out in the letter from Kingston Securities as well as in Appendix I to this Composite Document.

The Company has established the Independent Board Committee comprising all the independent non-executive Directors, namely Dr. Lam Andy Siu Wing *JP*, Mr. Siu Siu Ling, Robert and Mr. Tam Tak Wah, to advise the Independent Shareholders in relation to the terms and conditions of the Offers.

The purpose of this Composite Document is to provide you with, among other matters, information relating to the Company, the Offers as well as to set out the letter from the Independent Board Committee containing its recommendation to the Independent Shareholders and the Option Holders in respect of the Offers and the letter from Guangdong Securities containing its advice to the Independent Board Committee in respect of the Offers.

THE OFFERS

The following information about the Offers is extracted from the letter from Kingston Securities contained in this Composite Document.

Kingston Securities, on behalf of the Offeror, is making the Offers which is unconditional in all respects, on behalf of the Offeror on the following basis:

For every Offer Share HK\$0.1213 in cash

For every Share Option (*note*) HK\$0.0001 in cash

Note: As at the Latest Practicable Date, the exercise prices of the outstanding Share Options are HK\$4.9911, HK\$6.3968 and HK\$7.2024 respectively, which are all out-of-money. Details of the Share Options are set out in the following table:–

Date of grant	Period during which Share Options are exercisable	Exercise price per Share <i>HK\$</i>	Number of new Shares to be issued upon exercise of Share Options by Option Holders	Offer price per Share Option <i>HK\$</i>
10 February 2004	10 February 2004 to 9 February 2014	6.3968	481,175	0.0001
2 May 2007	2 May 2007 to 1 May 2017	7.2024	316,562	0.0001
30 January 2008	30 January 2008 to 29 January 2018	4.9911	633,125	0.0001

LETTER FROM THE BOARD

The Offer Price of HK\$0.1213 per Offer Share is equal to the price paid by the Offeror per Share issued and issuable (i.e. through the conversion of the Sale CN and the Sale CPS) under the Sale and Purchase Agreement. The Offer Shares acquired under the Share Offer shall be fully paid and free and clear from all Encumbrances and together with all rights attaching to them, including but not limited to all rights to any dividend or other distribution declared, made or paid on or after the date on which the Share Offer is made, being the date of posting of this Composite Document.

As at the Latest Practicable Date, the Company has 340,662,666 Shares in issue.

In addition, the Company has outstanding (i) Convertible Notes, (ii) Convertible Preference Shares; and (iii) 1,430,862 Share Options conferring rights to subscribe for a total of 1,430,862 Shares. Save for the Convertible Notes, the Convertible Preference Shares and the outstanding Share Options, the Company does not have any outstanding options, derivatives, warrants or securities which are convertible or exchangeable into Shares and has not entered into any agreement for the issue of such options, derivatives, warrants or securities which are convertible or exchangeable into Shares as at the Latest Practicable Date.

Upon Completion, the outstanding Convertible Notes of HK\$18,000,000 is owned as to: (i) HK\$12,600,000 by the Offeror carrying rights to convert into 105,000,000 Conversion Shares, being the Sale CN; and (ii) HK\$5,400,000 by BGL carrying rights to convert into 45,000,000 Conversion Shares; whereas the aggregate of 520,000,000 Convertible Preference Shares is owned as to: (i) 364,000,000 Convertible Preference Shares by the Offeror carrying rights to convert into 364,000,000 Conversion Shares, being the Sale CPS, and (ii) 156,000,000 Convertible Preference Shares by BGL, carrying rights to convert into 156,000,000 Conversion Shares.

Undertaking by BGL

Immediately after Completion, BGL remained interested in 29,000,000 Shares, 156,000,000 Convertible Preference Shares and the Convertible Notes in the principal amount of HK\$5,400,000 entitling BGL to convert into 45,000,000 Shares. Pursuant to the Irrevocable Undertaking, BGL has irrevocably undertaken to the Offeror, inter alia, that it shall not sell, transfer, dispose of, or convert (in case of the Convertible Preference Shares and the Convertible Notes) the aforesaid from the date of the Irrevocable Undertaking to the closing date of the Offers (both days inclusive). Furthermore, it shall not accept the Share Offer in respect of the 29,000,000 Shares and any offer by the Offeror for the Convertible Preference Shares and the Convertible Notes owned by BGL pursuant to the Offeror's obligations under the Takeovers Code relating to the Sale and Purchase Agreement.

After the close of the Offers, BGL may consider selling, transferring, disposing of, or converting any outstanding Convertible Preference Shares and the Convertible Notes owned by it, depending on the then market conditions and subject to the requirements of the Listing Rules.

As at the Latest Practicable Date, BGL does not have any plan as to when and the number of outstanding Convertible Preference Shares and Convertible Notes owned by it will be converted.

LETTER FROM THE BOARD

Further details of the Offers

Further details of the Offers including, among others, the terms and conditions and the procedure for acceptance and settlement are set out in the letter from Kingston Securities contained in this Composite Document, Appendix I to this Composite Document and the accompanying Forms of Acceptance.

If a(n) Shareholder/Option Holder wishes to accept the Offers in respect of any of his/her Share/Share Option, he/she should complete the accompanying Forms of Acceptance in accordance with the instructions set out therein.

INFORMATION ON THE GROUP

The Company is principally engaged in investment holding. The Group is principally engaged in the manufacture and sale of tinplate cans for the packaging of beverage in Shanxi, the PRC and general trading.

The Group recorded an audited profit of approximately RMB9.25 million and approximately RMB157.52 million respectively for the years ended 31 December 2010 and 2011. The audited net liabilities of the Group as at 31 December 2010 was approximately RMB110.91 million, while the audited net assets of the Group as at 31 December 2011 was approximately RMB129.63 million. Unaudited profit of the Group for the six months ended 30 June 2011 amounted to approximately RMB1.90 million, while the unaudited loss for the six months period ended 30 June 2012 was approximately RMB2.77 million. Unaudited net liabilities of the Group as at 30 June 2011 was approximately RMB109.01 million, while unaudited net assets of the Group as at 30 June 2012 was approximately RMB128.58 million.

As disclosed in the announcement dated 24 December 2012 (the “December Announcement”), the Group expected to record a loss for the year ended 31 December 2012 as compared to a profit of the year ended 31 December 2011.

Further to the Company’s profit warning announcement dated 25 July 2012 and the interim results announcement dated on 20 August 2012 where it was disclosed that, among other things, the Group recorded a loss for the six months ended 30 June 2012 as compared with a profit for the same period of last year, the Company announced in the December Announcement that the Group expected to continue to record a loss in the second half of 2012, which would result in a loss for the year ended 31 December 2012 as compared to a profit recorded in the year ended 31 December 2011. The reasons for the expected loss include but not limited to the Group will not record any gain from restructuring as in the financial year ended 31 December 2011, increase in overhead and administrative expenses, decrease in turnover, provision for doubtful debt (if any) and/or impairment loss (if any). After completion of the restructuring of the Group and the discharge of the provisional liquidators of the Company in November 2011, the Company has resumed its normal operation in Hong Kong and has incurred increased overhead and administrative expenses since then.

The annual results announcement of the Company for the year ended 31 December 2012 is expected to be released in March 2013.

LETTER FROM THE BOARD

Such statements as disclosed in the December Announcement constitute a profit forecast under Rule 10 of the Takeovers Code and therefore have been reported on by ZHONGLEI (HK) CPA Company Limited, the auditor of the Company, and the Independent Financial Adviser in accordance with Rule 10 of the Takeovers Code. Please refer to Appendix IV to this Composite Document for the opinions expressed by ZHONGLEI (HK) CPA Company Limited and the Independent Financial Adviser, respectively.

SHAREHOLDING STRUCTURE OF THE COMPANY

The table below shows the shareholding structure of the Company as at the Latest Practicable Date.

Shareholders	As at the Latest Practicable Date	
	Number of Shares	Approximate % of issued Shares
Offeror and parties acting in concert with it	201,000,000	59.00%
BGL (<i>Note</i>)	29,000,000	8.51%
Public Shareholders	110,662,666	32.49%
Total	<u>340,662,666</u>	<u>100.00%</u>

Note: BGL is holding such Shares via its trustee, Market Giant Investments Limited, in which Mr. Leung Heung Ying, Alvin, an executive Director, is the ultimate beneficial owner.

INFORMATION ON THE OFFEROR

Your attention is drawn to the section headed “Information about the Offeror” in the letter from Kingston Securities on page 12 of this Composite Document.

INTENTION OF THE OFFEROR REGARDING THE GROUP

According to the letter from Kingston Securities, the Offeror intends that the Company will continue with its existing principal activities. The Offeror does not intend to introduce any major changes to the existing operations and business of the Company. The Offeror will conduct a more detailed review on the operations of the Group with a view to formulating a comprehensive business strategy for the Group and subject to the result of the review, the Offeror may explore other business opportunities and consider whether any assets and/or business acquisitions by the Group will be appropriate in order to enhance its growth. The Offeror has no intention to discontinue the employment of the employees (save for a change in the composition of the Board) or to dispose of or deploy the assets of the Group other than those in its ordinary course of business. As at the Latest Practicable Date, the Offeror has no intention or plans for any acquisition or disposal of assets and/or business by the Group.

LETTER FROM THE BOARD

The Board currently comprises two executive Directors and three independent non-executive Directors.

The two executive Directors, namely Mr. Leung Heung Ying, Alvin and Mr. Wong Tat Wai Derek, and Dr. Lam Andy Siu Wing *JP*, an independent non-executive Director and the chairman of the audit, remuneration and nomination committees of the Company, will resign from their office with effect from the earliest time permitted under the Takeovers Code. The Offeror will nominate Mr. He and Mr. Zhang Zhantao as executive Directors and such appointment has not taken effect earlier than the date of posting of this Composite Document subject to the requirements under the Takeovers Code. The Board will appoint a new independent non-executive Director as soon as practicable after the resignation of Dr. Lam Andy Siu Wing *JP*. In any event, the Board will ensure compliance to Rules 3.10(1) and 3.11 of the Listing Rules. Separate announcements will be made as and when appropriate.

Your attention is drawn to the section headed “Offeror’s intention in respect of the Group” in the letter from Kingston Securities on pages 12 to 13 of this Composite Document.

The Board has noted the intention of the Offeror in respect of the Group and its employees and is willing to render cooperation and support to the Offeror, which are in the interests of the Company and its Shareholder as a whole.

RECOMMENDATIONS

Your attention is drawn to the letters from the Independent Board Committee and Guangdong Securities, respectively, which set out their recommendations and opinions in relation to the Offers and the principal factors considered by them before arriving at their recommendations.

ADDITIONAL INFORMATION

You are also advised to read this Composite Document together with the accompanying Form of Acceptance in respect of the acceptance and settlement procedures of the Offers. Your attention is also drawn to the additional information contained in the appendices to this Composite Document.

Yours faithfully,
By the order of the Board
China Packaging Group Company Limited
Leung Heung Ying, Alvin
Executive Director

LETTER FROM THE INDEPENDENT BOARD COMMITTEE



中國包裝集團有限公司 China Packaging Group Company Limited

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 572)

29 January 2013

To the Independent Shareholders and Option Holders

Dear Sir or Madam,

**COMPOSITE DOCUMENT IN RELATION TO
UNCONDITIONAL MANDATORY CASH OFFERS BY
KINGSTON SECURITIES LIMITED
ON BEHALF OF ABLE SUCCESS ASIA LIMITED
FOR ALL THE ISSUED SHARES IN
CHINA PACKAGING GROUP COMPANY LIMITED
(OTHER THAN THOSE SHARES ALREADY OWNED BY
ABLE SUCCESS ASIA LIMITED AND
PARTIES ACTING IN CONCERT WITH IT)
AND TO CANCEL ALL OUTSTANDING SHARE OPTIONS**

INTRODUCTION

We refer to the composite offer and response document (the “Composite Document”) dated 29 January 2013 jointly issued by the Offeror and the Company, of which this letter forms part. Terms used in this letter shall have the same meanings as defined in the Composite Document unless the context otherwise requires.

We have been appointed as members of the Independent Board Committee to consider the terms of the Offers and to advise you as to whether, in our opinion, the terms of the Offers are fair and reasonable so far as the Independent Shareholders are concerned.

Guangdong Securities has been appointed as the Independent Financial Adviser to the Independent Board Committee to advise us in respect of the terms of the Offers. Details of its advice and principal factors taken into consideration in arriving at its recommendation are set out in the letter from Guangdong Securities on pages 23 to 36 of the Composite Document.

LETTER FROM THE INDEPENDENT BOARD COMMITTEE

RECOMMENDATION

Having taken into account the terms of the Offers and the advice of Guangdong Securities, we consider that the terms of the Option Offer are fair and reasonable so far as the Option Holders are concerned whereas the terms of the Share Offer are not fair and reasonable so far as the Independent Shareholders are concerned. Accordingly, we recommend the Option Holders to accept the Option Offer whereas the Independent Shareholders not to accept the Share Offer. However, Independent Shareholders are reminded that they should carefully and closely monitor the market price of the Shares and consider selling their Shares in the open market rather than accepting the Offers if the net proceeds from the market sale of their Shares after deducting all transaction costs exceed the net amount to be received under the Offers.

Yours faithfully,
For and on behalf of the
Independent Board Committee

Dr. Lam Andy Siu Wing JP
Independent
non-executive Director

Mr. Siu Siu Ling, Robert
Independent
non-executive Director

Mr. Tam Tak Wah
Independent
non-executive Director

LETTER FROM GUANGDONG SECURITIES

Set out below is the text of a letter received from Guangdong Securities, the Independent Financial Adviser to the Independent Board Committee in respect of the Offers for the purpose of inclusion in this Composite Document.



Units 2505-06, 25/F.
Low Block of Grand Millennium Plaza
181 Queen's Road Central
Hong Kong

29 January 2013

To: The independent board committee of China Packaging Group Company Limited

Dear Sirs,

**UNCONDITIONAL MANDATORY CASH OFFERS
BY KINGSTON SECURITIES LIMITED
ON BEHALF OF ABLE SUCCESS ASIA LIMITED
FOR ALL THE ISSUED SHARES IN
CHINA PACKAGING GROUP COMPANY LIMITED
(OTHER THAN THOSE SHARES ALREADY OWNED BY
ABLE SUCCESS ASIA LIMITED
AND PARTIES ACTING IN CONCERT WITH IT) AND
TO CANCEL ALL OUTSTANDING SHARE OPTIONS**

INTRODUCTION

We refer to our appointment as the Independent Financial Adviser to advise the Independent Board Committee in respect of the Offers, details of which are contained in the Composite Document dated 29 January 2013 jointly issued by the Company and the Offeror to the Shareholders, of which this letter forms part. Terms used in this letter shall have the same meanings as defined in the Composite Document unless the context requires otherwise.

On 23 November 2012, IAM, BGL and the Offeror entered into the Sale and Purchase Agreement, pursuant to which IAM and BGL agreed to sell and the Offeror agreed to purchase the Sale Shares (representing approximately 59.00% of the entire issued share capital of the Company), the Sale CN and the Sale CPS at an aggregate cash Consideration of HK\$81,271,000. The consideration for the Sale Shares is HK\$24,381,300, representing HK\$0.1213 per Sale Share (the “**Sale Share Price**”).

Upon Completion which took place on 26 November 2012, the Offeror and parties acting in concert with it are interested in 201,000,000 Shares, representing approximately 59.00% of the entire issued share capital of the Company. Save for the aforesaid, together with the Sale CN and the Sale CPS, the Offeror and parties acting in concert with it do not have any other interests in any securities of the Company. Pursuant to Rule 26.1 of the Takeovers Code, the Offeror is required to make an unconditional mandatory general offer in cash for all the issued Shares other than those already owned by the Offeror and parties acting in concert with it.

LETTER FROM GUANGDONG SECURITIES

An Independent Board Committee comprising Dr. Lam Andy Siu Wing *JP*, Mr. Siu Siu Ling, Robert and Mr. Tam Tak Wah (all being independent non-executive Directors) has been established to advise the Independent Shareholders on whether the terms of the Offers are fair and reasonable so far as the Independent Shareholders/Option Holders are concerned and as to acceptance of the Offers. We, Guangdong Securities Limited, have been appointed as the Independent Financial Adviser to advise the Independent Board Committee in this respect, and our opinion herein is solely for the assistance of the Independent Board Committee in connection with its consideration of the Offers pursuant to Rule 2.1 of the Takeovers Code. The appointment of Guangdong Securities as the Independent Financial Adviser has been approved by the Independent Board Committee.

BASIS OF OUR OPINION

In formulating our opinion to the Independent Board Committee, we have relied on the statements, information, opinions and representations contained or referred to in the Composite Document and the information and representations as provided to us by the Directors and the Offeror (where applicable). We have assumed that all information and representations that have been provided by the Directors and the Offeror (where applicable), for which they are solely and wholly responsible, are true and accurate at the time when they were made and continue to be so as at the Latest Practicable Date, and should there be any material changes to our opinion after the Latest Practicable Date, Shareholders would be notified as soon as possible. We have also assumed that all statements of belief, opinion, expectation and intention made by the Directors and the Offeror (where applicable) in the Composite Document were reasonably made after due enquiry and careful consideration. We have no reason to suspect that any material facts or information have been withheld or to doubt the truth, accuracy and completeness of the information and facts contained in the Composite Document, or the reasonableness of the opinions expressed by the Company, its advisers and/or the Directors and the Offeror (where applicable), which have been provided to us. We consider that we have taken sufficient and necessary steps on which to form a reasonable basis and an informed view for our opinion in compliance with Rule 13.80 of the Listing Rules.

The sole director of the Offeror accepts full responsibility for the accuracy of the information contained in the Composite Document (other than the information relating to the Group, the Vendors and parties acting in concert with any of them), and confirms, having made all reasonable enquires, that to the best of his knowledge, opinions expressed in the Composite Document have been arrived at after due and careful consideration and there are no other facts not contained in the Composite Document, the omission of which would make any statement in the Composite Document misleading.

The Directors jointly and severally accept full responsibility for the accuracy of the information contained in the Composite Document (other than the information relating to the Offeror and parties acting in concert with it), and confirm, having made all reasonable enquires, that to the best of their knowledge, opinions expressed in the Composite Document have been arrived at after due and careful consideration and there are no other facts not contained in the Composite Document, the omission of which would make any statement in the Composite Document misleading.

LETTER FROM GUANGDONG SECURITIES

We consider that we have been provided with sufficient information to reach an informed view and to provide a reasonable basis for our opinion. We have not, however, conducted any independent in-depth investigation into the business and affairs of the Company, IAM, BGL, the Offeror or their respective subsidiaries or associated companies, nor have we considered the taxation implication on the Group or the Shareholders as a result of the Offers. The Company has been separately advised by its own professional advisers with respect to the Offers and the preparation of the Composite Document (other than this letter).

We have assumed that the Offers will be consummated in accordance with the terms and conditions set forth in the Composite Document without any waiver, amendment, addition or delay of any terms or conditions. We have assumed that in connection with the receipt of all the necessary governmental, regulatory or other approvals and consents as required for the Offers, no delay, limitation, condition or restriction will be imposed that would have a material adverse effect on the contemplated benefits expected to be derived from the Offers. In addition, our opinion is necessarily based on the financial, market, economic, industry-specific and other conditions as they existed on, and the information made available to us as at the Latest Practicable Date.

Lastly, where information in this letter has been extracted from published or otherwise publicly available sources, the sole responsibility of Guangdong Securities is to ensure that such information has been correctly and fairly extracted, reproduced or presented from the relevant sources.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In arriving at our opinion in respect of the Offers, we have taken into consideration the following principal factors and reasons:

(1) Background and terms of the Offers

On 23 November 2012, IAM, BGL and the Offeror entered into the Sale and Purchase Agreement, pursuant to which IAM and BGL agreed to sell and the Offeror agreed to purchase the Sale Shares (representing approximately 59.00% of the entire issued share capital of the Company), the Sale CN and the Sale CPS at an aggregate cash Consideration of HK\$81,271,000. The consideration for the Sale Shares is HK\$24,381,300, with the Sale Share Price being HK\$0.1213.

Upon Completion which took place on 26 November 2012, the Offeror and parties acting in concert with it are interested in 201,000,000 Shares, representing approximately 59.00% of the entire issued share capital of the Company. Save for the aforesaid, together with the Sale CN and the Sale CPS, the Offeror and parties acting in concert with it do not have any other interests in any securities of the Company. Pursuant to Rule 26.1 of the Takeovers Code, the Offeror is required to make an unconditional mandatory general offer in cash for all the issued Shares other than those already owned by the Offeror and parties acting in concert with it.

LETTER FROM GUANGDONG SECURITIES

Immediately after Completion, BGL remained interested in 29,000,000 Shares, 156,000,000 Convertible Preference Shares and the Convertible Notes in the principal amount of HK\$5,400,000 entitling BGL to convert into 45,000,000 Shares. Pursuant to the Irrevocable Undertaking, BGL has irrevocably undertaken to the Offeror, inter alia, that it shall not sell, transfer, dispose of, or convert (in case of the Convertible Preference Shares and the Convertible Notes) the aforesaid from the date of the Irrevocable Undertaking to the closing date of the Offers (both days inclusive). Furthermore, it shall not accept the Share Offer in respect of the 29,000,000 Shares and any offer by the Offeror for the Convertible Preference Shares and the Convertible Notes owned by BGL pursuant to the Offeror's obligations under the Takeovers Code relating to the Sale and Purchase Agreement.

Taking into account the Irrevocable Undertaking, Kingston Securities will, on behalf of the Offeror, make the Offers to all the Independent Shareholders to acquire all the issued Shares, other than those already owned by the Offeror and parties acting in concert with it, and to cancel all the outstanding Share Options in compliance with the Takeovers Code on the following basis:

For every Share HK\$0.1213 in cash

For every Share Option HK\$0.0001 in cash

As confirmed by the Directors, as at the Latest Practicable Date, the Company had 340,662,666 Shares in issue. In addition, the Company had outstanding (i) Convertible Notes in the principal amount of HK\$18,000,000; (ii) 520,000,000 Convertible Preference Shares; and (iii) 1,430,862 Share Options conferring rights to subscribe for a total of 1,430,862 Shares. Save for the Convertible Notes, the Convertible Preference Shares and the outstanding Share Options, the Company did not have any outstanding options, derivatives, warrants or securities which are convertible or exchangeable into Shares and had not entered into any agreement for the issue of such options, derivatives, warrants or securities which are convertible or exchangeable into Shares as at the Latest Practicable Date.

On the basis of the Offer Price of HK\$0.1213 per Offer Share, the offer price of HK\$0.0001 per outstanding Share Option and 340,662,666 Shares in issue as at the Latest Practicable Date, the entire issued share capital of the Company is valued at approximately HK\$41.32 million. Excluding the 201,000,000 Sale Shares having been acquired by the Offeror pursuant to the Sale and Purchase Agreement and the 29,000,000 Shares and all conversion shares which may be issued under the 156,000,000 Convertible Preference Shares and the Convertible Notes of HK\$5,400,000 owned by BGL pursuant to the Irrevocable Undertaking, 110,662,666 Shares will be subject to the Share Offer and 1,430,862 outstanding Share Options will be subject to the Option Offer, which in aggregate are valued at approximately HK\$13.42 million.

Further terms of the Offers are set out in the "Letter from Kingston Securities" and Appendix I to the Composite Document.

LETTER FROM GUANGDONG SECURITIES

(2) Financial information on the Group

The Company is principally engaged in investment holding. The Group is principally engaged in the manufacture and sale of tinplate cans for the packaging of beverage in Shanxi province, the PRC and general trading.

Set out below is a summary of the consolidated financial information on the Group for the six months ended 30 June 2012 and each of the two years ended 31 December 2011 as extracted from the interim report of the Company for the six months ended 30 June 2012 (the “**Interim Report**”) and its the annual report for the year ended 31 December 2011 respectively:

	For the six months ended 30 June 2012 (unaudited) RMB'000	For the year ended 31 December 2011 (audited) RMB'000	For the year ended 31 December 2010 (audited) RMB'000	Change from 2010 to 2011 %
Revenue	54,835	142,311	124,812	14.02
Gross profit	9,326	26,621	22,895	16.27
(Loss)/profit for the period/year attributable to owners of the Company	(2,769)	157,518 <i>(Note 1)</i>	9,247	1,603.45
	As at 30 June 2012 (unaudited) RMB'000	As at 31 December 2011 (audited) RMB'000	As at 31 December 2010 (audited) RMB'000	Change from 2010 to 2011 %
Bank balances and cash	15,325	21,877	2,649	725.86
Net assets/(liabilities)	128,580	129,633	(110,914)	N/A

Notes:

- (1) The consolidated profit attributable to owners of the Company for the year ended 31 December 2011 included a gain on restructuring of approximately RMB161.73 million.
- (2) The Company’s auditor, Zhonglei (HK) CPA Company Limited, issued a disclaimer of opinion for the financial year ended 31 December 2010 and a disclaimer of opinion on profit, cash flows, opening balances, comparative figures and related disclosures for the financial year ended 31 December 2011. The independent auditor’s reports, containing details of the aforesaid disclaimers, are reproduced in Appendix II to the Composite Document.

Trading in the Shares on the Stock Exchange had been suspended since 28 April 2009 and the provisional liquidators to the Company were appointed on 2 October 2009. In order to resume trading and revive the Group’s business, the Company entered into a restructuring agreement with other relevant parties (including IAM and BGL which acted as investors) on 17 June 2011 (the “**Restructuring Agreement**”). The Restructuring Agreement provides for, inter alia, the reorganisation of the capital structure of the Company involving amongst others, capital reduction, the subscription of new Shares, the Convertible Preference Shares and the Convertible Notes by the investors, the grant of options to creditors under

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the schemes of arrangement in Hong Kong and the Cayman Islands, the bonus issue of new Shares and the proposed implementation of the aforesaid schemes. On 1 November 2011, all of the conditions precedent to the Restructuring Agreement were satisfied, all of the transactions contemplated thereunder were completed and IAM and BGL became the controlling shareholders of the Company (as defined in the Listing Rules). In addition, as the Company has completely fulfilled the resumption conditions set by the Stock Exchange, trading in the Shares on the Stock Exchange has resumed since 4 November 2011.

As depicted by the above table, the Group's revenue and profit grew for the year ended 31 December 2011. However, the Group turned to be loss making for the six months ended 30 June 2012. According to the Interim Report, such a loss was primarily due to decrease in turnover resulting from downturn in the PRC economy in the first half of 2012 and increase in overhead and administrative expenses as, after discharge of the provisional liquidators of the Company in November 2011, the Company has resumed its normal operations in Hong Kong and has incurred increased overhead and administrative expenses since then. The Directors are of the view that in light of the uncertainties and challenges faced by the world major economies, the slowing down, tight credit control and inflationary pressure of/in the PRC economy, it is uncertain as to whether the Group's profitability would be enhanced or its business would expand in the future. The Directors advised us that the Group will continue to manage its business in a prudent manner and exercise stringent financial control.

Moreover, further to the Company's profit warning announcement dated 25 July 2012 and the interim results announcement dated 20 August 2012 where it was disclosed that, among other things, the Group recorded a loss for the six months ended 30 June 2012 as compared with a profit for the same period of last year, the Company announced on 24 December 2012 that the Group expected to continue to record a loss in the second half of 2012, which would result in a loss for the year ended 31 December 2012 as compared to a profit recorded in the year ended 31 December 2011 (the "**2012 Loss Estimate**"). The reasons for the expected loss include but are not limited to the Group will not record any gain from restructuring as in the financial year ended 31 December 2011, increase in overhead and administrative expenses, decrease in turnover, provision for doubtful debt (if any) and/or impairment loss (if any). After completion of the restructuring of the Group and the discharge of the provisional liquidators of the Company in November 2011, the Company has resumed its normal operations in Hong Kong and has incurred increased overhead and administrative expenses since then.

As extracted from the Board Letter, the annual results announcement of the Company for the year ended 31 December 2012 is expected to be released in March 2013.

(3) Information on the Offeror and Mr. He

Set out below is the information on the Offeror and Mr. He as extracted from the "Letter from Kingston Securities" of the Composite Document:

The Offeror is an investment holding company incorporated in the BVI with limited liability. The sole shareholder and director of the Offeror is Mr. He. Immediately prior to the entering into of the Sale and Purchase Agreement, the Offeror and its ultimate beneficial shareholder are Independent Third Parties and do not hold any Shares. Other than the entering into of the Sale and Purchase Agreement, the Offeror has not conducted any business since its incorporation.

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Mr. He Jianhong, aged 42, is a Chinese entrepreneur engaging in the steel trading and manufacturing business. Mr. He has over 12 years' sales and marketing experience in steel and mould steel and over ten years' production experience in mould steel. He has working experience in product development, business development, corporate strategy and corporate management. Mr. He is a director (理事) of the Shunde Young Entrepreneurs Association (順德青年企業家協會).

(4) The Offeror's intention for the Group

Business

As disclosed in the "Letter from Kingston Securities" of the Composite Document, the Offeror intends that the Company will continue with its existing principal activities. The Offeror does not intend to introduce any major changes to the existing operations and business of the Company. The Offeror will conduct a more detailed review on the operations of the Group with a view to formulating a comprehensive business strategy for the Group and subject to the result of the review, the Offeror may explore other business opportunities and consider whether any assets and/or business acquisitions by the Group will be appropriate in order to enhance its growth. The Offeror has no intention to discontinue the employment of the employees (save for the change in the composition of the Board) or to dispose of or deploy the assets of the Group other than those in its ordinary course of business. As at the Latest Practicable Date, the Offeror had no intention or plans for any acquisition or disposal of assets and/or business by the Group.

Proposed change in the Board composition

The Board currently comprises two executive Directors and three independent non-executive Directors. The two executive Directors, namely Mr. Leung Heung Ying, Alvin and Mr. Wong Tat Wai Derek, and Dr. Lam Andy Siu Wing JP, an independent non-executive Director and the chairman of the audit, remuneration and nomination committees of the Company, will resign from their office with effect from the earliest time permitted under the Takeovers Code. The Offeror will nominate Mr. He and Mr. Zhang Zhantao as executive Directors and such appointment will not take effect earlier than the date of posting of the Composite Document subject to the requirements under the Takeovers Code. The Board will appoint a new independent non-executive Director as soon as practicable after the resignation of Dr. Lam Andy Siu Wing JP, and in any event the Board will ensure compliance with Rules 3.10(1) and 3.11 of the Listing Rules.

The biography of Mr. He is disclosed in the above section headed "Information on the Offeror and Mr. He".

The biography of Mr. Zhang Zhantao, as extracted from the "Letter from Kingston Securities" of the Composite Document, is as below:

Mr. Zhang Zhantao ("**Mr. Zhang**"), aged 39, holder of a certificate in finance from the Guangdong Radio & TV University (廣東廣播電視大學) in September 2000. Mr. Zhang has over 10 years' working experience in a bank in the PRC. He has experience in bank finance business operations. Mr. Zhang was a chief financial controller of a Chinese enterprise for five years. He established working experience in corporate financial planning and corporate management.

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Maintaining the listing status of the Company

The Offeror intends to maintain the listing of the Shares on the Stock Exchange after closing of the Offers. As at the Latest Practicable Date, notwithstanding that the Offeror intended to convert all or part of the Sale CPS and the Sale CN after the close of the Offers, the Offeror did not have any plan as to when and the number of outstanding Sale CPS and Sale CN to be converted. Mr. He, the sole director of the Offeror and the new Directors to be appointed to the Board will jointly and severally undertake to the Stock Exchange to take appropriate steps to ensure that sufficient public float exists in the Shares.

Given the Offeror's intention for the Group as stated above, the Group's prospects are uncertain. Those Independent Shareholders who consider retaining part or all of their investments in the Shares should carefully monitor the financial performance of the Group as well as the intention of the Offeror in relation to the Company in the future, and the relevant risks and uncertainties based on their individual risk preference and tolerance level.

(5) The Offer Price per Offer Share

The Offer Price of HK\$0.1213 per Offer Share represents:

- (a) a discount of approximately 50.08% to the closing price of HK\$0.243 per Share as quoted on the Stock Exchange as at the Latest Practicable Date;
- (b) a discount of approximately 43.32% to the closing price of HK\$0.214 per Share as quoted on the Stock Exchange as at the Last Trading Day;
- (c) a discount of approximately 42.35% to the average closing price of approximately HK\$0.2104 per Share, being the average of the closing prices of the Shares as quoted on the Stock Exchange for the five trading days up to and including the Last Trading Day;
- (d) a discount of approximately 41.79% to the average closing price of approximately HK\$0.2084 per Share, being the average of the closing prices of the Shares as quoted on the Stock Exchange for the ten trading days up to and including the Last Trading Day;
- (e) a discount of approximately 46.89% to the average closing price of approximately HK\$0.2284 per Share, being the average of the closing prices of the Shares as quoted on the Stock Exchange for the 30 trading days up to and including the Last Trading Day; and
- (f) a discount of approximately 73.87% to the Group's consolidated net assets of approximately RMB0.3774 (equivalent to approximately HK\$0.4642 based on the exchange rate of RMB1:HK\$1.23) per Share based on the Group's unaudited consolidated net assets of approximately RMB128.58 million (equivalent to approximately HK\$158.15 million) as at 30 June 2012 and 340,662,666 Shares in issue as at the Latest Practicable Date.

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Historical price performance of the Shares

The highest and lowest closing prices and the average daily closing price of the Shares as quoted on the Stock Exchange in each month during the period commencing from 1 December 2011 up to and including the Latest Practicable Date (the “**Review Period**”) are shown as follows:

Month	Highest closing price (HK\$)	Lowest closing price (HK\$)	Average daily closing price (HK\$)	No. of trading days in each month
2011				
December	0.490	0.280	0.354	20
2012				
January	0.350	0.270	0.317	18
February	0.415	0.290	0.359	21
March	0.405	0.310	0.338	22
April	0.315	0.260	0.281	18
May	0.260	0.185	0.212	22
June	0.247	0.180	0.209	21
July	0.230	0.164	0.195	21
August	0.300	0.192	0.245	23
September	0.280	0.220	0.238	20
October	0.280	0.202	0.240	20
November <i>(Note)</i>	0.230	0.200	0.215	16
December <i>(Note)</i>	0.270	0.240	0.250	11
2013				
January (up to the Latest Practicable Date)	0.260	0.233	0.244	18

Source: the Stock Exchange web-site (www.hkex.com.hk)

Note: Trading in the Shares was suspended from 23 November 2012 to 12 December 2012 (both days inclusive) pending the release of the Announcement.

As illustrated by the above table, the Offer Price had been below the historical closing prices of the Shares during the entire Review Period. The highest and lowest closing prices of the Shares were HK\$0.490 and HK\$0.164 recorded on 1 December 2011 and 26 July 2012 respectively, and the Offer Price represents discounts of approximately 75.24% and 26.04% as compared to the aforesaid closing prices. After the publication of the Announcement, the Share price surged to HK\$0.270 on 13 December 2012, and had not dropped significantly since then up to the Latest Practicable Date.

We noted that the Offer Price is equivalent to the Sale Share Price. Nevertheless, judging from the historical closing prices of the Shares, we are of the opinion that the Offer Price is unattractive and is not fair and reasonable so far as the Independent Shareholders are concerned.

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Historical trading liquidity of the Shares

The number of trading days, the average daily number of the Shares traded per month, and the respective percentages of the Shares' monthly trading volume as compared to (i) the total number of issued Shares held by the public as at the Latest Practicable Date; and (ii) the total number of issued Shares as at the Latest Practicable Date during the Review Period are tabulated as below:

Month	No. of trading days in each month	Average daily trading volume (the "Average Volume") <i>Number of Shares</i>	% of the Average Volume to total number of issued Shares held by the public as at the Latest Practicable Date (Note 2) <i>%</i>	% of the Average Volume to total number of issued Shares as at the Latest Practicable Date (Note 3) <i>%</i>
2011				
December	20	418,823	0.38	0.12
2012				
January	18	490,580	0.44	0.14
February	21	1,487,317	1.34	0.44
March	22	420,697	0.38	0.12
April	18	279,716	0.25	0.08
May	22	320,010	0.29	0.09
June	21	232,771	0.21	0.07
July	21	187,593	0.17	0.06
August	23	518,360	0.47	0.15
September	20	458,406	0.41	0.13
October	20	593,040	0.54	0.17
November (Note 1)	16	2,524,233	2.28	0.74
December (Note 1)	11	3,989,545	3.61	1.17
2013				
January (up to the Latest Practicable Date)	18	980,479	0.89	0.29

Source: the Stock Exchange web-site (www.hkex.com.hk)

Notes:

1. Trading in the Shares was suspended from 23 November 2012 to 12 December 2012 (both days inclusive) pending the release of the Announcement.
2. Based on 110,662,666 Shares held by the public as at the Latest Practicable Date.
3. Based on 340,662,666 Shares in issue as at the Latest Practicable Date.

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We noted from the above table that trading in the Shares had been very thin during the entire Review Period. In light of that the Shares are highly illiquid, the disposal of large blocks of Shares held by the Shareholders in the open market would likely to trigger price slump of the Shares. For this reason, there is no guarantee that Independent Shareholders will be able to realise their investments in the Shares (especially those with relatively sizeable shareholdings) at a price which is substantially higher than the Offer Price. We, therefore, consider that the Share Offer provides an exit alternative for the Independent Shareholders who would like to realise their investments in the Shares.

Nonetheless, if any Independent Shareholders who would like to realise their investments in the Shares are able to dispose of their Shares in the open market and/or identify potential purchaser(s) to acquire for their Shares at a price higher than the Offer Price, those Independent Shareholders may consider not accepting the Share Offer but selling their Shares in the open market and/or to such potential purchaser(s), as they wish to do so and as they think fit having regard to their own circumstances, in case the net proceeds from the sale of their Shares would exceed the net amount receivable under the Share Offer.

Furthermore, those Independent Shareholders who, after reading through the Composite Document and this letter, are optimistic about the prospects of the Group after the Offers may, having regard to their own circumstances, consider retaining all or any part of their Shares. However, given the loss making position of the Group for the six months ended 30 June 2012, the 2012 Loss Estimate and that the Offeror will, following completion of the Offers, conduct a detailed review of the operations of the Company with a view to developing corporate strategy, we consider that the prospects of the Group after the Offers would be uncertain.

Accordingly, Independent Shareholders should closely monitor the market price and liquidity of the Shares during the Offer Period and carefully consider the relevant risks and uncertainties based on their individual risk preference and tolerance level. Those Independent Shareholders who decide to retain part or all of their investments in the Shares should also carefully monitor the financial performance of the Group as well as the intention of the Offeror in relation to the Company in the future, and the potential difficulties they may encounter in disposing of their investments in the Shares after the close of the Offers.

Comparison with other comparable companies

To further assess the fairness and reasonableness of the Offer Price, we have researched for Hong Kong listed companies which are engaged in similar line of business as the Company, i.e. the packaging business, and derive majority (i.e. more than 50%) of their revenue from such principal line of business. To the best of our knowledge and as far as we are aware of, there are 11 comparable listed companies which met our selection criteria (the “**Comparable Companies**”) and we consider those Comparable Companies to be fair, representative and exhaustive samples. Nevertheless, it should be noted that the operations and prospects of the Comparable Companies are not the same as the Company and we have not conducted any in-depth investigation into the businesses, operations and prospects of the Comparable Companies.

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The following table sets out (a) the price to book ratio (“**P/B**”) and price to earnings ratio (“**P/E**”) of the Comparable Companies based on their closing price as at the Latest Practicable Date and their latest published financial information; and (b) the implied P/B and P/E of the Company based on the Offer Price and its latest published financial information:

Company name (Stock code)	Principal business	Year end date	P/B (times) (Note 1)	P/E (times)
Hao Tian Resources Group Limited (474)	Sale of plastic and paper boxes for luxury consumer goods, developing of underground coking coal mine, coal production and sale of coal.	31/3/2012	0.47	N/A (Note 2)
CPMC Holdings Limited (906)	Manufacturing of packaging products for consumer goods such as food, beverages and household chemical products in the PRC.	31/12/2011	1.62	15.90
Sheen Tai Holdings Group Company Limited (1335)	Manufacture and supply of cigarette packaging materials in the PRC.	31/12/2011	2.27	3.80
AMVIG Holdings Limited (2300)	Print and manufacture cigarette packages and manufacture laminated papers and laser film.	31/12/2011	0.55	4.40
Brilliant Circle Holdings International Limited (1008)	Provision of the printing of package and decoration matters, research and development on printing technology, wholesale, import and export of the packaging products; printing of cigarette packages and manufacturing of laminated papers.	31/12/2011	1.80	8.63
Greatview Aseptic Packaging Company Limited (468)	Manufacturing, distribution and selling of paper packaging for soft drinks and beverages, and filling machines.	31/12/2011	2.67	18.13
Qualipak International Holdings Limited (1332)	OEM manufacturing and sourcing of packaging products include watch boxes, jewellery boxes, eyewear cases, bags and pouches and display units.	31/12/2011	0.54	2.84
Southeast Asia Properties & Finance Limited (252)	Property investment and development, hotel ownership and management, manufacturing and trading of plastic packaging materials, stock broking and finance.	31/3/2012	0.54	5.68
Jin Bao Bao Holdings Limited (1239)	Provision of packaging products and structural components in the PRC, design, manufacture and sale of packaging products for consumer electrical appliances. Design and manufacture of structural components for inside electrical appliances.	31/12/2011	1.25	8.81
Sino Haijing Holdings Limited (1106)	Manufacture and sale of packaging materials.	31/12/2011	0.99	N/A (Note 2)
Cheong Ming Investments Limited (1196)	Manufacture and sale of paper cartons, packaging boxes, children’s novelty books, hangtags, labels and shirt paper boards, plastic bags and commercial printing.	31/3/2012	0.45	N/A (Note 2)
Maximum			2.67	18.13
Minimum			0.45	2.84
Average			1.20	8.52
The Company	Manufacture and sale of tinplate cans for the packaging of beverage and general trading.	31/12/2011	0.26 <i>(Note 3)</i>	0.08 <i>(Note 3)</i>

Source: the Stock Exchange web-site (www.hkex.com.hk)

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Notes:

1. The implied P/Bs were calculated based on their latest published interim reports.
2. The selected companies were loss making during the relevant latest financial year.
3. Calculated based on the Offer Price.

As shown by the above table, the Comparable Companies were trading at P/B ranging from approximately 0.45 times to approximately 2.67 times. The implied P/B of the Company (based on the Offer Price) of approximately 0.26 times is hence below the said market range. With regard to P/E, the Comparable Companies were trading at P/E ranging from approximately 2.84 times to approximately 18.13 times. The implied P/E of the Company (based on the Offer Price) of approximately 0.08 times is hence also below the said market range. Having taken into account the above, we consider that the Offer Price is unattractive and is not fair and reasonable so far as the Independent Shareholders are concerned.

(6) The offer price per Share Option

The offer price to cancel all the outstanding Share Options is a nominal value of HK\$0.0001 per Share Option. As at the Latest Practicable Date, the exercise prices of the outstanding Share Options were HK\$4.9911, HK\$6.3968 and HK\$7.2024 respectively, which were all extremely out-of-money. Accordingly, we consider the offer price per Share Option to be fair and reasonable so far as the Independent Shareholders are concerned.

RECOMMENDATION

Having considered the above factors and reasons, in particular:

- (i) the Offer Price had been below the historical closing prices of the Shares during the entire Review Period; and
- (ii) the market comparison as set forth under the sub-section headed “Comparison with other comparable companies” of this letter (i.e. the implied P/B of the Company (based on the Offer Price) being below the range of the P/Bs of the Comparable Companies and the implied P/E of the Company (based on the Offer Price) being also below the range of the P/Es of the Comparable Companies),

we consider that the Offer Price is unattractive and the terms of the Share Offer are not fair and reasonable so far as the Independent Shareholders are concerned. Nevertheless, Independent Shareholders should also note that the Offer Price is equivalent to the Sale Share Price, which is the price of the Sale Shares sold to the Offeror, who was an Independent Third Party when the Sale and Purchase Agreement was entered into. On the other hand, since the outstanding Share Options are extremely out-of-money while the offer price to cancel all the outstanding Share Options is of a nominal value, we consider that the terms of the Option Offer are fair and reasonable so far as the Option Holders are concerned. Accordingly, we recommend the Independent Board Committee to advise the Independent Shareholders not to accept the Share Offer but to advise the Option Holders to accept the Option Offer.

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However, the Group's prospects are uncertain given its loss making condition for the six months ended 30 June 2012 and the 2012 Loss Estimate, and that trading in the Shares has resumed since 4 November 2011 after suspension of over two years before that. With this being the case, those Independent Shareholders who decide to retain part or all of their investments in the Shares should carefully monitor the financial performance of the Group as well as the intention of the Offeror in relation to the Company in the future, and the potential difficulties they may encounter in disposing of their investments in the Shares after the close of the Offers. Further terms and conditions of the Offers are set out in the "Letter from Kingston Securities" and Appendix I to the Composite Document.

Overall speaking, we would also like to remind the Independent Board Committee to remind the Independent Shareholders to closely monitor the market price and liquidity of the Shares during the Offer Period, especially that the disposal of large blocks of Shares held by the Independent Shareholders in the open market may trigger price slump of the Shares as a result of the thin trading of the Shares. Independent Shareholders should consider selling their Shares in the open market, where possible, instead of accepting the Share Offer, if the net proceeds from such sales exceed the net amount receivable under the Share Offer.

Moreover, as different Shareholders would have different investment criteria, objectives and/or circumstances, we would recommend any Shareholder who may require advice in relation to any aspect of the Composite Document, or as to the action to be taken, to consult a licensed securities dealer, bank manager, solicitor, professional accountant, tax adviser or other professional adviser.

Yours faithfully,
For and on behalf of
Guangdong Securities Limited
Graham Lam
Managing Director

1. ACCEPTANCE OF THE OFFERS**1.1 The Share Offer**

- (a) To accept the Share Offer, you should complete and sign the accompanying **WHITE** Form of Acceptance in accordance with the instructions printed thereon, which instructions form part of the terms of the Share Offer.
- (b) If the Share certificate(s) and/or transfer receipt(s) and/or any other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) in respect of your Shares is/are in your name, and you wish to accept the Share Offer, you must send the duly completed **WHITE** Form of Acceptance together with the relevant Share certificate(s) and/or transfer receipt(s) and/or other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) by post or by hand to the Registrar at Shop 1712-1716, 17/F Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong, with "**China Packaging Group Company Limited – Share Offer**" marked on the envelope.
- (c) If the Share certificate(s) and/or transfer receipt(s) and/or any other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) in respect of your Shares is/are in the name of a nominee company or a name other than your own, and you wish to accept the Share Offer in respect of your Shares, you must either:
 - (i) lodge your Share certificate(s) and/or transfer receipt(s) and/or any other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) with the nominee company, or other nominee, with instructions authorising it to accept the Share Offer on your behalf and requesting it to deliver the duly completed **WHITE** Form of Acceptance together with the relevant Share certificate(s) and/or transfer receipt(s) and/or any other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) for the number of Shares in respect of which you intend to accept the Share Offer to the Registrar; or
 - (ii) arrange for the Shares to be registered in your name by the Company through the Registrar, and send the duly completed and signed **WHITE** Form of Acceptance together with the relevant Share certificate(s) and/or transfer receipt(s) and/or any other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) to the Registrar; or

- (iii) if your Shares have been lodged with your licensed securities dealer/registered institution in securities/custodian bank through CCASS, instruct your licensed securities dealer/registered institution in securities/custodian bank to authorise HKSCC Nominees Limited to accept the Share Offer on your behalf on or before the deadline set by HKSCC Nominees Limited (which is normally one Business Day before the last date on which acceptances of the Share Offer must be received by the Registrar). In order to meet the deadline set by HKSCC Nominees Limited, you should check with your licensed securities dealer/registered institution in securities/custodian bank for the timing on processing of your instruction, and submit your instruction to your licensed securities dealer/registered institution in securities/custodian bank as required by them; or
 - (iv) if your Shares have been lodged with your investor participant account maintained with CCASS, give your instruction via the CCASS Phone System or CCASS Internet System on or before the deadline set by HKSCC Nominees Limited (which is normally one Business Day before the last date on which acceptances of the Share Offer must be received by the Registrar).
- (d) If the Share certificate(s) and/or transfer receipt(s) and/or any other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) in respect of your Shares is/are not readily available and/or is/are lost and you wish to accept the Share Offer in respect of your Shares, the **WHITE** Form of Acceptance should nevertheless be completed and delivered to the Registrar together with a letter stating that you have lost one or more of your Share certificate(s) and/or transfer receipt(s) and/or any other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) or that it/they is/are not readily available. If you find such document(s) or if it/they become available, the relevant Share certificate(s) and/or transfer receipt(s) and/or any other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) should be forwarded to the Registrar as soon as possible thereafter. If you have lost your Share certificate(s), you should also write to the Registrar for a letter of indemnity which, when completed in accordance with the instructions given, should be returned to the Registrar.
- (e) If you have lodged transfer(s) of any of your Shares for registration in your name and have not yet received your Share certificate(s), and you wish to accept the Share Offer in respect of your Shares, you should nevertheless complete and sign the **WHITE** Form of Acceptance and deliver it to the Registrar together with transfer receipt(s) that you have duly signed. Such action will be deemed to be an irrevocable authority to Kingston Securities and/or the Offeror or their respective agent(s) to collect from the Registrar on your behalf the relevant Share certificate(s) when issued and to deliver such certificate(s) to the Registrar as if it was/they were delivered to the Registrar with the **WHITE** Form of Acceptance.

- (f) Unless otherwise decided by the Offeror, acceptance of the Share Offer will be treated as valid only if the completed and signed **WHITE** Form of Acceptance is received by the Registrar no later than 4:00 p.m. on the Closing Date (or such later time and/or date as the Offeror may determine and announce in accordance with the Takeovers Code), and is:
- (i) accompanied by the relevant Share certificate(s) and/or transfer receipt(s) and/or any other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) and, if the Share certificate(s) is/are not in your name, such other documents as are required in order to establish your right to become the registered holder of the relevant Shares; or
 - (ii) from a registered Shareholder or his/her/its personal representative (but only up to the amount of the registered holding and only to the extent that the acceptance relates to Shares which are not taken into account under another sub-paragraph of this paragraph (f)); or
 - (iii) certified by the Registrar or the Stock Exchange.
- (g) If the **WHITE** Form of Acceptance is executed by a person other than the registered Shareholder, appropriate documentary evidence of authority to the satisfaction of the Registrar must be produced.
- (h) Seller's ad valorem stamp duty for transfers of Shares registered by the Registrar arising in connection with acceptance of the Share Offer will be payable by each accepting Shareholder at the rate of 0.1% of (i) the market value of the Shares; or (ii) the consideration payable by the Offeror in respect of the relevant acceptance, whichever is higher, and the amount of such duty will be deducted from the cash amount payable by the Offeror to the relevant Shareholder accepting the Share Offer. The Offeror will arrange for payment of the seller's ad valorem stamp duty on behalf of relevant Shareholders accepting the Share Offer and will pay the buyer's ad valorem stamp duty in connection with the acceptance of the Share Offer and the transfer of the Shares in accordance with the Stamp Duty Ordinance (Chapter 117 of the Laws of Hong Kong).
- (i) No acknowledgement of receipt of any **WHITE** Form of Acceptance, Share certificate(s) and/or transfer receipt(s) and/or any other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) will be given.

1.2 The Option Offer

- (a) If you accept the Option Offer, you should complete and sign the accompanying **PINK** Form of Acceptance in accordance with the instructions printed thereon, which instructions form part of the terms of the Option Offer.

- (b) The completed and signed **PINK** Form of Acceptance should be forwarded, together with the relevant certificate(s) of the relevant Share Options stating the number of Share Options in respect of the Share Options granted which you intend to accept the Option Offer, by post or by hand to the company secretary of the Company at China Packaging Group Company Limited, Suite 06-07, 28th Floor, Shui On Centre, 6-8 Harbour Road, Wanchai, Hong Kong, with “**China Packaging Group Company Limited – Option Offer**” marked on the envelope, as soon as possible and in any event so as to reach the company secretary of the Company at the aforesaid address no later than 4:00 p.m. on the Closing Date (or such later time and/or date as the Offeror may determine and announce in accordance with the Takeovers Code).
- (c) No stamp duty will be deducted from the amount paid to the Option Holders who accept the Option Offer.
- (d) No acknowledgement of receipt of any **PINK** Form of Acceptance and/or certificate(s) of the Share Options will be given.

1.3 General

Subject to the terms of the Takeovers Code, acceptance(s) of the Offers may, at the discretion of the Offeror, be treated as valid even if not entirely in order or not accompanied by the relevant Share certificate(s) and/or transfer receipt(s) and/or any other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof), but, in such cases, the consideration due will not be despatched until the Share certificate(s) and/or transfer receipt(s) and/or any other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) has/have been received by the Registrar. However, subject to the Executive’s consent, such acceptances will not be counted as valid acceptances of the Offers unless Rule 30.2 of the Takeovers Code has been fully complied with.

2. SETTLEMENT OF THE OFFERS

2.1 The Share Offer

Provided that a valid **WHITE** Form of Acceptance and the relevant Share certificate(s) and/or transfer receipt(s) and/or any other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) are complete and in good order in all respects and have been received by the Registrar no later than 4:00 p.m. on the Closing Date (or such later time and/or date as the Offeror may determine and announce in accordance with the Takeovers Code), a cheque for the amount due to each Shareholder less seller’s ad valorem stamp duty in respect of the Shares tendered by him/her/it under the Share Offer will be despatched to the Shareholder by ordinary post at his/her/its own risk as soon as possible but in any event within 7 Business Days of the date of receipt of the completed **WHITE** Form of Acceptance and all the relevant documents by the Registrar from the Shareholder accepting the Share Offer.

2.2 The Option Offer

Provided that a valid **PINK** Form of Acceptance and the relevant certificate(s) of the Share Options are complete and in good order in all respects and have been received by the company secretary of the Company no later than 4:00 p.m. on the Closing Date (or such later time and/or date as the Offeror may determine and announce in accordance with the Takeovers Code), a cheque for the amount due to each Option Holder in respect of the Share Options surrendered by him/her under the Option Offer will be despatched to the Option Holder by ordinary post at his/her own risk as soon as possible but in any event within 7 Business Days of the date of receipt of the duly completed **PINK** Form of Acceptance and all relevant documents by the company secretary of the Company from the Option Holder accepting the Option Offer.

2.3 Consideration

Settlement of the consideration to which any Shareholder or Option Holder is entitled under the Offers will be implemented in full in accordance with the terms of the Offers (save in respect of the payment of seller's ad valorem stamp duty) without regard to any lien, right of setoff, counterclaim or other analogous right to which the Offeror may otherwise be, or claim to be, entitled against such Shareholder or Option Holder, as the case may be.

3. ACCEPTANCE PERIOD AND REVISIONS

- (a) the Offeror has the right, subject to the Takeovers Code, to extend the Offers after the despatch of this Composite Document or to revise the terms of the Offers. Any decision to extend the latest time and/or date for acceptances may be made at any time up to, and will be announced no later than, the time on the relevant date stipulated in the section headed "Announcements" in this Appendix, or any such later time and date as the Executive may agree.
- (b) Unless the Offers are validly extended, all acceptances must be received by 4:00 p.m. on the Closing Date in accordance with the instructions printed on the relevant Forms of Acceptance and the Offers will be closed on the Closing Date.
- (c) If the Offers are extended, the announcement of such extension will state the next closing date.
- (d) If the Closing Date is extended, any reference in this Composite Document and in the Forms of Acceptance to the Closing Date shall, except where the context otherwise requires, be deemed to refer to the closing date of the Offers as so extended.
- (e) If in the course of the Offers, the Offeror revises the terms of the Offers, all the Shareholders and the Option Holders, whether or not they have already accepted the Offers, will be entitled to the revised terms. A revised offer must be kept open for at least 14 days following the date on which the revised offer document is posted and shall not be closed earlier than the Closing Date.

- (f) The acceptance by or on behalf of a Shareholder of the Share Offer or an Option Holder of the Option Offer in its original and/or any previously revised form shall be treated as an acceptance of the relevant Offer(s) as so revised.
- (g) Any acceptance of the relevant revised Offer(s) and/or any election pursuant thereto shall be irrevocable unless and until the accepting Shareholder/Option Holder becomes entitled to withdraw his/her/its acceptance under the paragraph headed “Right of Withdrawal” below and duly does so.

4. ANNOUNCEMENTS

- (a) By 6:00 p.m. (or such later time as the Executive may in exceptional circumstances permit) on the Closing Date, the Offeror will inform the Executive and the Stock Exchange of its decision in relation to the revision or extension of the Offers. The Offeror will publish an announcement on the Stock Exchange’s website by 7:00 p.m. on the Closing Date stating whether the Offers have been revised or extended. The announcement will state the total number of Shares and Share Options and rights over Shares:
 - (i) for which acceptances of the Offers have been received;
 - (ii) held, controlled or directed by the Offeror and parties acting in concert with it before the Offer Period; and
 - (iii) acquired or agreed to be acquired during the Offer Period by the Offeror and parties acting in concert with it.

The announcement shall include the details of any relevant securities in the Company which the Offeror or any person acting in concert with the Offeror has borrowed or lent (save for any borrowed Shares which have been on-lent or sold). The announcement will also specify the percentages of the relevant classes of share capital, and the percentages of voting rights, represented by these numbers.

If the Offeror is unable to comply with any requirements of Rule 19 of the Takeovers Code, the Executive may require that Shareholders and Option Holders who have tendered their Form(s) of Acceptance to accept the Offer(s) be granted a right of withdrawal on terms acceptable to the Executive, until the requirements of Rule 19 of the Takeovers Code can be met.

- (b) In computing the total number of Shares and Share Options represented by acceptances, only valid acceptances that are complete, in good order and fulfil the acceptance conditions set out in this Appendix, and which have been received by the Registrar (in respect of the Share Offer) or the company secretary of the Company (in respect of the Option Offer) respectively no later than 4:00 p.m. on the Closing Date (being the latest time and date for acceptance of the Offers) shall be included.

5. RIGHT OF WITHDRAWAL

- (a) As the Offers are unconditional in all respects, acceptances by Shareholders or Option Holders shall be irrevocable and shall not be capable of being withdrawn, except in the circumstances set out in (b) below.
- (b) If the Offeror is unable to comply with the requirements set out in the paragraph headed “Announcements” in this Appendix, the Executive may require that Shareholders and Option Holders who have tendered acceptances to the Offers be granted a right of withdrawal on terms that are acceptable to the Executive until the requirements set out in that paragraph are met.

6. GENERAL

- (a) Each Shareholder and Option Holder by whom, or on whose behalf, a Form of Acceptance is executed, irrevocably undertakes, represents, warrants and agrees to and with the Offeror and Kingston Securities, so as to bind him, her or it, their personal representatives, heirs, successors and assigns, to the following effect:
 - (i) that the execution of the relevant Form of Acceptance whether or not any boxes are completed shall constitute:–
 - (A) an acceptance of the Share Offer or Option Offer in respect of the number of Shares or Share Options inserted or deemed to be inserted in the relevant Form of Acceptance on and subject to the terms set out or referred to in this Composite Document and in such Form of Acceptance and that, subject only to the right of withdrawal set out or referred to in this Appendix, each such acceptance shall be irrevocable; and
 - (B) an undertaking to execute any further documents, take any further actions and give any further assurances which may be required in connection with the foregoing including, without limitation, to secure the transfer of the Shares in respect of which he, she or it has accepted or is deemed to have accepted the Offers to the Offeror and the benefit of all dividends and distributions paid, made or declared on or after the close of the Offers;
 - (ii) the Shares acquired under the Share Offer and the Share Options tendered under the Option Offer are sold or tendered by such person or persons free from all Encumbrances whatsoever and together with all rights accruing or attaching thereto as at the date of this Composite Document or subsequently attaching to them, including in respect of the Shares, the right to receive in full all dividends and other distributions, if any, declared, paid or made on the Shares on or after the date of this Composite Document;

- (iii) if such acceptor is an Overseas Shareholder or Overseas Option Holder, that he, she or it has observed the laws of all relevant territories, obtained any and all requisite governmental, exchange control or other consents which may be required, complied with all requisite formalities and paid any and all transfer or other taxes or duties due from him or her in connection with such acceptance in any territory, that he, she or it has not taken or omitted to take any action which will or may result in the Offeror, Kingston Securities or any other person acting or being in breach of the legal or regulatory requirements of any territory in connection with the Offers or his or her acceptance thereof and he, she or it is permitted under the laws of the relevant jurisdictions in connection therewith to receive and accept the Offers (and any revision thereof), and that such acceptance is valid and binding in accordance with the laws of the relevant jurisdictions in connection therewith;
- (iv) that such Shareholder or Option Holder will deliver or procure the delivery to the Registrar (in the case of the Share Offer) or the company secretary of the Company (in the case of the Option Offer) of his or her relevant Share or Share Option certificate(s) (if any) and/or transfer receipt(s) and/or any other document(s) of title and/or any satisfactory indemnity or indemnities required in respect thereof (as applicable);
- (v) that the execution and delivery of the relevant Form of Acceptance to the Registrar (in the case of the Share Offer) or the company secretary of the Company (in the case of the Option Offer) constitutes a separate and irrevocable authority and request to the Offeror and/or Kingston Securities to procure the despatch by post of a cheque in respect of any cash payment in connection with the Offers, at the risk of such Shareholder or Option Holder, to the person or agent whose name and address is set out in the relevant Form of Acceptance or, if none is set out, to the first-named or the sole registered holder of the relevant Shares or Share Options at his or her registered address;
- (vi) that the terms and conditions of the Offers contained in this Composite Document shall be incorporated in and form part of the relevant Form of Acceptance, which shall be read and construed accordingly;
- (vii) that in relation to the Offers, he, she or it will do all such acts and things as shall be necessary or expedient to vest in the Offeror, or its nominees or such other person as the Offeror may decide, the Shares and/or Share Options to which such acceptance relates;
- (viii) that acceptance of the Offers by any nominee will be deemed to constitute a warranty by such nominee to the Offeror and Kingston Securities that the number of Shares or Share Options indicated in the Forms of Acceptance is the aggregate number of Shares or Share Options held by such nominee for such beneficial owners who are accepting the Offers;

- (ix) that the Offers and all acceptances thereof, the Forms of Acceptance and all contracts made pursuant to the Offers, and all actions taken or made or deemed to be taken or made pursuant to these terms, are governed by and shall be construed in accordance with the laws of Hong Kong. Execution of a Form of Acceptance by or on behalf of the relevant Shareholder or Option Holder will constitute a submission by such Shareholder or Option Holder in relation to all matters arising out of the Offers and the relevant Form of Acceptance to the jurisdiction of the courts of Hong Kong and the agreement of such Shareholder or Option Holder that nothing shall limit the right of the Offeror or Kingston Securities to bring an action, suit or proceeding arising out of or in connection with the creation, validity, effect, interpretation or performance of the legal relations established in relation to the Offers and the Forms of Acceptance in any other manner permitted by law or in any court of competent jurisdiction;
- (x) that in relation to any acceptance of the Share Offer in respect of a holding of Shares which is in uncertificated form, the Offeror and Kingston Securities reserve the right to make such alterations, additions or modifications as may be necessary or desirable to give effect to any purported acceptance of the Share Offer whether in order to comply with the facilities or requirements of CCASS or otherwise, provided such alterations, additions or modifications are consistent with the requirements of Rule 30.2 of the Takeovers Code or are otherwise made with the consent of the Executive;
- (xi) that due execution of the relevant Form of Acceptance in respect of the Offers will constitute an irrevocable instruction and authority to the Offeror and Kingston Securities, any director of the Offeror and any director of Kingston Securities or their respective agents to complete, amend and execute, on behalf of the Shareholders and the Option Holders who accept the Offers, the Forms of Acceptance and any document and, in relation to the Offers, to do any other act that may be necessary or expedient for the purpose of vesting in the Offeror, or such person or persons as the Offeror shall direct, the Shares or for the cancellation of the Share Option(s) which are the subject of such acceptance;
- (xii) that in making their decision in respect of the Offers, Shareholders and Option Holders will rely on their own examination of the Offeror, the Company, and that the terms of the Offers, including the merits and risks involved, and that the contents of this Composite Document, including any general advice or recommendation contained herein, together with the Forms of Acceptance will not be construed as any legal or business advice and that Shareholders and Option Holders should consult their own professional advisers for professional advice; and
- (xiii) that the terms, provisions, instructions and authorities contained in or deemed to be contained in the Forms of Acceptance constitute part of the terms of the Offers. The provisions of this Appendix shall be deemed to be incorporated into the Forms of Acceptance.

- (b) All communications, notices, Forms of Acceptance, certificate(s) of Shares or certificate(s) of the Share Options, transfer receipt(s), other documents of title or indemnities and remittances to settle the consideration payable under the Offers to be delivered by or sent to or from the Shareholders and the Option Holders will be delivered by or sent to or from them, or their designated agents, at their own risk, and none of the Offeror, parties acting in concert with it, Kingston Securities, the Company, the Registrar nor any of their respective directors or other parties involved in the Offers or any of their respective agents shall accept any liability for any loss in postage or any other liabilities that may arise as a result thereof.
- (c) Notwithstanding any other provision in this Composite Document or the Forms of Acceptance and subject to the provisions of the Takeovers Code, the Offeror and Kingston Securities reserve the right to treat acceptances as valid if received by or on behalf of either of them at any place or places or in any manner determined by either of them otherwise than as set out in this Composite Document or in the Forms of Acceptance, provided however that, subject to the Executive's consent, such acceptances will not be counted as valid acceptances of the Offers unless Rule 30.2 of the Takeovers Code has been fully complied with.
- (d) The accidental omission to despatch this Composite Document and/or the Forms of Acceptance or any of them to any person to whom the Offers are made will not invalidate the Offers in any way.
- (e) References to the Offers in this Composite Document and in the Forms of Acceptance shall include any revision and/or extension thereof.
- (f) The English text of this Composite Document and the Forms of Acceptance shall prevail over their respective Chinese texts for the purpose of interpretation.

1. FINANCIAL SUMMARY

Set out below is a summary of the financial results of the Group for the six months ended 30 June 2012 as extracted from the interim report of the Company for the six months ended 30 June 2012 and each of the three years ended 31 December 2011, 2010 and 2009 as extracted from the annual reports of the Company for the year ended 31 December 2011 and 2010 respectively.

The Company's then auditor, namely World Link CPA Limited, issued a disclaimer of opinion for the financial year ended 31 December 2009. The Company's current auditor, namely ZHONGLEI (HK) CPA Company Limited, issued a disclaimer of opinion for the financial year ended 31 December 2010 and a disclaimer of opinion on the profit, cash flows, opening balances, comparative figures and related disclosures for the financial year ended 31 December 2011. The independent auditor's reports for the three years ended 31 December 2011 are reproduced in the section headed "2. Independent auditor's reports" in this appendix. Save for the aforesaid, the Company's auditors have not issued any qualified opinion for the three financial years ended 31 December 2011.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	For the six months period ended 30 June 2012	For the year ended 31 December		
	<i>RMB'000</i> (unaudited)	<i>RMB'000</i> (audited)	<i>RMB'000</i> (audited)	<i>RMB'000</i> (audited)
Turnover	54,835	142,311	124,812	74,066
Other income	80	56	7,620	2,972
(Loss)/profit before tax	(879)	163,464	14,648	(8,608)
Tax (charge)/credit	(1,890)	(5,946)	(5,401)	–
(Loss)/profit attributable to owners of the Company	(2,769)	157,518	9,247	(8,608)
Total comprehensive (expenses)/income attributable to owners of the Company	(2,564)	157,668	9,247	(8,608)
Dividend	–	–	–	–
Dividend per Share	–	–	–	–
Basic (losses)/earnings per Share attributable to owners of the Company	(RMB0.0087)	RMB1.29	RMB0.11	(RMB0.0133)
Diluted (losses)/earnings per Share attributable to owners of the Company	(RMB0.0087)	RMB0.19	RMB0.11	(RMB0.0133)

The Group did not have any minority interest or extraordinary items or items which were exceptional because of its size, nature or incidence for each of the six months ended 30 June 2012 and the three years ended 31 December 2011.

2. INDEPENDENT AUDITOR'S REPORTS

The following is a reproduction of (i) the independent auditor's report issued by World Link CPA Limited, the then auditor of the Company, on the consolidated financial statements of the Group which are contained in the 2009 annual report of the Company; and (ii) the independent auditor's reports issued by ZHONGLEI (HK) CPA Company Limited, the current auditor of the Company, on the consolidated financial statements of the Group which are contained in the 2010 and 2011 annual report of the Company respectively. References to page number in this section refer to page number of the corresponding annual report of the Company.

(i) In respect of the financial statements for 2011

We have audited the consolidated financial statements of China Packaging Group Company Limited (the “**Company**”) and its subsidiaries (collectively referred to as the “**Group**”) set out on pages 26 to 87, which comprise the consolidated statement of financial position as at 31 December 2011, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

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.

Auditor's 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, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Except for the inability to obtain sufficient appropriate audit evidence as explained below, 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. Because of the matters described in the Basis for Disclaimer of Opinion paragraph, however, we were not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on the Group's financial performance and cash flows. Nevertheless, we believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our unmodified opinion on the consolidated statement of financial position at 31 December 2011.

Basis for disclaimer opinion on the profit, cash flows, opening balances, comparative figures and related disclosures

Limitation of scope affecting the profit, cash flows, opening balances, comparative figures and related disclosures

Our audit opinion on the consolidated financial statements of the Group for the year ended 31 December 2010 (the “**2010 Consolidated Financial Statements**”), which forms the basis for the corresponding figures presented in the current year’s consolidated financial statements, was disclaimed because of the significance of the possible effect of the limitations on the scope of our audit and the material uncertainty in relation to going concern, details of which are set out in our audit report dated 30 March 2011. Therefore the comparative amounts show in the consolidated financial statements may not be comparable with the amount for the current period.

Moreover, because of lack of Provisional Liquidators, director and management’s representation as to the completeness and accuracy of the books and records made available to us for the year ended 31 December 2010, we cannot perform any audit procedure to assure the completeness of the disclosure of commitments, contingent liabilities and related party transactions and disclosure of event after the reporting period. Accordingly, certain comparative information might not be disclosed in these consolidated financial statements which are not in full compliance with the relevant Hong Kong Financial Reporting Standards.

In addition, the Group has a gain on restructuring of approximately RMB161,733,000 for the year ended 31 December 2011. Due to scope limitation as described in the 2010 Consolidated Financial Statements in respect of limitation of scope affecting provision for bank borrowings guarantee for a deconsolidated subsidiary, we were unable to satisfy ourselves as to the accuracy of the total liabilities of the Company released or discharged included in the calculation of the gain on restructuring during the year ended 31 December 2011 and as to whether the amount of gain on restructuring has been accurately recorded in the consolidated statement of comprehensive income.

Any adjustments found to be necessary to the opening balances as at 1 January 2011 may affect the results and related disclosures in the notes to the consolidated financial statements of the Group for the year ended 31 December 2011.

Disclaimer of opinion on the profit, cash flows, opening balances, comparative figures and related disclosures

Because of the significance of the matters described in the basis for disclaimer of opinion paragraphs, we do not express an opinion on the consolidated financial statements as to whether they give a true and fair view of the Group’s profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and as to whether they have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Opinion on the consolidated statement of financial position

In our opinion, the consolidated statement of financial position gives a true and fair view of the state of the Group's affairs as at 31 December 2011 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.

ZHONGLEI (HK) CPA Company Limited

Certified Public Accountants (Practising)

Ho Yiu Hang, Ricky

Practising Certificate Number: P05494

Hong Kong

20 March 2012

(ii) In respect of the financial statements for 2010

We were engaged to audit the consolidated financial statements of China Packaging Group Company Limited (Provisional Liquidators Appointed) (the “**Company**”) and its subsidiaries (collectively referred to as the “**Group**”) set out on pages 17 to 61, which comprise the consolidated statement of financial position as at 31 December 2010, and the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Directors’ and Provisional Liquidators’ responsibility for the consolidated financial statements

The Directors and the Provisional Liquidators since their appointment on 2 October 2009 are responsible for the preparation and the true and fair presentation of these consolidated financial statements in accordance with Hong Kong Financial Reporting Standards (“**HKFRSs**”) issued by the Hong Kong Institute of Certified Public Accountants (“**HKICPA**”) and the disclosure requirements of the Hong Kong Companies Ordinance. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Suspension of trading of the Company’s shares and appointment of the joint and several Provisional Liquidators

Trading of the Company’s shares on The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”) has been suspended since 28 April 2009.

As stated in Note 2.1 to the consolidated financial statements:

“On 2 October 2009, pursuant to an order of the High Court of the Hong Kong Special Administrative Region, Mr. Fok Hei Yu and Mr. Roderick John Sutton, both of FTI Consulting (Hong Kong) Limited (“**FTI Consulting**”) (formerly Ferrier Hodgson Limited), were appointed as the provisional liquidators to the Company (the “**Provisional Liquidators**”) as a result of the winding up petition made by DBS Bank (Hong Kong) Limited, one of the major creditors, against the Company. Upon the appointment of the Provisional Liquidators, the powers of the directors were suspended with regard to the affairs and business of the Company.

The Provisional Liquidators are responsible for the accuracy and completeness of the contents of the annual report and the audited consolidated financial statements for the year ended 31 December 2010 in relation to (i) the affairs of the Group after the appointment of the Provisional Liquidators; and (ii) the preparation of the contents of these audited consolidated financial statements for the year ended 31 December 2010 based on the books and records made available to the Provisional Liquidators.”

Auditor's 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.

Except as described in the basis for disclaimer of opinion paragraphs, we conducted our audit in accordance with Hong Kong Standards on Auditing issued by 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 as to whether the consolidated financial statements are free from material misstatement. However, because of the matters described in the basis for disclaimer of opinion paragraph, we were not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion.

Basis for disclaimer of opinion***1. Going concern and basis of preparation***

As disclosed in Note 2.1 to the consolidated financial statements, the Provisional Liquidators are in the process of restructuring the Group's indebtedness and revitalising the Group's business and that the consolidated financial statements have been prepared on a going concern basis. The ability of the Group as a going concern assumes that the restructuring proposal by Business Giant Limited (the "**Investor**") will be successfully implemented and that, following the restructuring, the Group will continue to meet in full its obligations as they fall due in the foreseeable future. We are unable to obtain information that is necessary to satisfy ourselves that the restructuring proposal will be successfully implemented and the Group will be able to operate as a going concern after the restructuring. We are therefore unable to form an opinion as to whether the assumptions used to prepare the Group's consolidated financial statements on a going concern basis are appropriate and the Group will be able to continue as a going concern. Should the liquidation basis of accounting have to be used, adjustments would have to be made to restate the value of the Group's assets to their recoverable amounts and the liabilities to their estimated settlement amounts, to provide for any further liabilities which might arise and to reclassify non-current assets and liabilities of the Group as current assets and liabilities respectively.

2. Lack of Provisional Liquidators, director and management representation

We are unable to obtain representation from the Provisional Liquidators, directors and management whether these consolidated financial statements present a true and fair view of the state of affairs of the Group as at 31 December 2010 and the results of the Group for the year then ended.

As explained in Note 2.1 to the consolidated financial statements, the Provisional Liquidators prepared the consolidated financial statements for the year ended 31 December 2010 based on books and records made available to them. The Provisional Liquidators make no representation as to the completeness and accuracy of the books and records made available to us. Therefore, we cannot perform any audit procedure to assure (i) the completeness and accuracy of the information contained in these consolidated financial statements; (ii) the completeness of the disclosure of commitments, contingent liabilities and related party transactions and balances in the consolidated financial statements as at 31 December 2010; and (iii) the completeness of the disclosure of event after the reporting period from the end of the reporting period up to the date of this report. As a consequence, the Provisional Liquidators are not making any representation that these consolidated financial statements of the Group present a true and fair view of the state of affairs of the Group as at 31 December 2010 and the results of the Group for the year then ended.

The lack of representation from the Provisional Liquidators, directors and management on the completeness and accuracy of the information contained in these consolidated financial statements constitutes a limitation of the scope of our audit.

3. Limitation of scope affecting opening balances, comparative figures and related disclosures

The preceding auditor of the Company issued an auditor's report dated 28 October 2010 with a "disclaimer opinion" on the consolidated financial statements of the Group for the year ended 31 December 2009 (the "**2009 Auditor's Report**") with scope limitations based on reasons summarized in the basis for disclaimer of opinion paragraphs therein.

We were not able to obtain sufficient reliable evidence to enable us to assess the scope limitations for the year ended 31 December 2009. Any adjustments found to be necessary to the opening balances as at 1 January 2010 may affect the results and related disclosures in the notes to the consolidated financial statements of the Group for the year ended 31 December 2010. The comparative figures for the year ended 31 December 2009 shown in these consolidated financial statements may not be comparable with the figures for the current year. Moreover, a number of disclosures as required by the Hong Kong Financial Reporting Standards have not been made in the 2009 Auditor's Report as the Provisional Liquidators did not have sufficient data and information as a result of unavailability of complete books and records of some of the subsidiaries of the Group. Accordingly, certain comparative information has not been disclosed in these consolidated financial statements which is not in full compliance with the relevant Hong Kong Financial Reporting Standards.

4. Gain on disposal of deconsolidation of subsidiaries

The Group has a gain on disposal of deconsolidated subsidiaries of HKD3 from the disposal of its entire equity interests in certain deconsolidated subsidiaries during the year ended 31 December 2010. Due to scope limitation as described in the 2009 Auditor's Report in respect of loss on deconsolidation of subsidiaries, impairment on investment costs and amount due from deconsolidated subsidiaries, amounts recovered from deconsolidated subsidiaries, we were unable to satisfy ourselves as to the accuracy of the carrying value of the deconsolidated subsidiaries as at the date of the disposal included in the calculation of the gain on disposal of deconsolidated subsidiaries during the year ended 31 December 2010 and as to whether the amount of gain on disposal of deconsolidated subsidiaries has been accurately recorded in the consolidated statement of comprehensive income. Any adjustments to the figure would have a consequential effect on the gain of the Group for the year ended 31 December 2010.

5. *Limitation of scope affecting provision for bank borrowings guarantee for a deconsolidated subsidiary*

As disclosed in Note 24 to the consolidated financial statements, as at 31 December 2010, the Group had made full provision for bank borrowings guarantee for a deconsolidated subsidiary of approximately RMB29,000,000. Since no direct confirmation from third parties and other sufficient evidence have been received by us up to the date of this report, we were unable to assess the accuracy and completeness of this liability. There are no other satisfactory alternative procedures that we could perform to satisfy ourselves that the balance and related disclosures have been properly recorded and reflected in the consolidated financial statements as at 31 December 2010.

Any adjustments to the figures above might have a significant consequential effect on the Group's results for two years ended 31 December 2009 and 2010, the financial positions of the Group as at 31 December 2009 and 2010, and the related disclosures thereof in the consolidated financial statements.

Fundamental uncertainty relating to the going concern basis

In forming our opinion, we have considered the adequacy of the disclosures made in Note 2.1 to the consolidated financial statements which explain the circumstances giving rise to the fundamental uncertainty. The appropriateness of preparing the Group's consolidated financial statements on the going concern basis depends on the successful outcome of the conclusion of the resumption proposal and the scheme of arrangement.

We consider that appropriate disclosures have been made. However, we consider that this material uncertainty is so fundamental that we disclaim our opinion in respect of the appropriateness of the going concern basis. The consolidated financial statements of the Group do not include any adjustments that would be necessary if the Group failed to operate as a going concern. Had the going concern basis not been used, adjustments would have to be made to reduce the carrying values of the Group's assets to their recoverable amounts, to provide further liabilities which might arise, and to reclassify non-current assets and non-current liabilities as current assets and current liabilities respectively. Such adjustments may have a significant consequential effect on the net liabilities of the Group as at 31 December 2010 and the Group's profit attributable to the owners of the Company for the year then ended.

Disclaimer of opinion

Because of the significance of the matters described in the basis for disclaimer of opinion paragraphs, we do not express an opinion on the consolidated financial statements as to whether they give a true and fair view of the state of affairs of the Group as at 31 December 2010 and of the Group's gain and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and as to whether they have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Report on matters under sections 141 (4) and 141 (6) of the Hong Kong companies ordinance

In respect alone of the limitation on our work relating to the matters described in the basis for disclaimer of opinion paragraphs:

- we have not obtained all the information and explanations that we considered necessary for the purpose of our audit; and
- we were unable to determine whether proper books of account had been kept.

ZHONGLEI (HK) CPA COMPANY LIMITED

Certified Public Accountants (Practising)

Chan Chi Kei Ronald

Practising Certificate Number: P04255

Hong Kong

30 March 2011

(iii) In respect of the financial statements for 2009

We were engaged to audit the consolidated financial statements of China Packaging Group Company Limited (Provisional Liquidators Appointed) (the “Company”) and its subsidiaries (collectively referred to as the “Group”) set out on pages 24 to 67, which comprise the consolidated statement of financial position as at 31 December 2009, and the consolidated statement of comprehensive income and the consolidated statement of changes in equity for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Directors’ and Provisional Liquidators’ responsibility for the consolidated financial statements

The Directors and the Provisional Liquidators since their appointment on 2 October 2009 are responsible for the preparation and the true and fair presentation of these consolidated financial statements in accordance with Hong Kong Financial Reporting Standards (“HKFRSs”) issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”) and the disclosure requirements of the Hong Kong Companies Ordinance. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Suspension of trading of the Company’s shares and appointment of the joint and several provisional liquidators

Trading of the Company’s shares on Stock Exchange has been suspended since 28 April 2009.

As stated in Note 2.1 to the financial statements:

“On 2 October 2009, pursuant to an order of the High Court of the Hong Kong Special Administrative Region, Mr. Fok Hei Yu and Mr. Roderick John Sutton, both of FTI Consulting (Hong Kong) Limited (formerly Ferrier Hodgson Limited), were appointed as the provisional liquidators to the Company (the “Provisional Liquidators”) as a result of the winding up petition made by DBS Bank (Hong Kong) Limited, one of the major creditors, against the Company. Upon the appointment of the Provisional Liquidators, the powers of the directors were suspended with regard to the affairs and business of the Company.

The Provisional Liquidators are responsible for the accuracy and completeness of the contents of annual report and the audited financial statements for the year ended 31 December 2009 in relation to (i) the affairs of the Group after the appointment of the Provisional Liquidators; and (ii) the preparation of the contents of these audited financial statements for the year ended 31 December 2009 based on the books and records made available to the Provisional Liquidators.”

Auditor’s 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.

Except for the limitation in the scope of our work as explained below, we conducted our audit in accordance with Hong Kong Standards on Auditing issued by the HKICPA. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free from material misstatement. However, because of the matters described in the basis for disclaimer of opinion paragraphs, we were not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion.

Basis for disclaimer of opinion

1. Going concern and basis of preparation

As disclosed in Note 2.1 to the financial statements, the Provisional Liquidators are in the process of restructuring the Group's indebtedness and revitalizing the Group's business and that the financial statements have been prepared on a going concern basis. The ability of the Group as a going concern assumes that the restructuring proposal by the Investor will be successfully implemented and that, following the restructuring, the Group will continue to meet in full its obligations as they fall due in the foreseeable future. We are unable to obtain information that is necessary to satisfy ourselves that the restructuring proposal will be successfully implemented and how the Group will be able to operate as a going concern after the restructuring. We are therefore unable to form an opinion as to whether the assumptions used to prepare the Group's financial statements on a going concern basis are appropriate and the Group will be able to continue as a going concern. Should the liquidation basis of accounting have to be used, adjustments would have to be made to restate the value of the Group's assets to their recoverable amounts and the liabilities to their estimated settlement amounts, to provide for any further liabilities which might arise and to reclassify non-current assets and liabilities of the Group as current assets and liabilities respectively.

2. Changes of directors, appointment of Provisional Liquidators and lack of management representation

During the year, there were changes in the composition of the board of directors of the Company. On 9 March 2009, Mr. Ng Wai Man resigned as independent non-executive director of the Company. On 9 June 2009, Mr. Lu Zheng was appointed as independent non-executive director of the Company. On 31 July 2009, Mr. Tong Hing Wah resigned as independent non-executive director of the Company. On 18 September 2009, Mr. Yang Zongwang resigned as executive director and chairman of the Company. Mr. Xue De Fa and Mr. Xie Xi resigned as executive directors of the Company and Mr. Lu Zheng resigned as independent non-executive director of the Company. On the same day, Mr. So Chiu was appointed as executive director of the Company, Mr. Seto Man Fai, Mr. Chan Hoi Wan and Mr. Orr Joseph Wai Shing were appointed as independent non-executive directors of the Company.

On 2 October 2009, the Provisional Liquidators were appointed. On 3 October 2009, Mr. Seto Man Fai resigned as independent non-executive director of the Company. On 7 October 2009, Mr. So Chiu and Mr. Chan Hoi Wan resigned as executive director and independent non-executive director of the Company respectively. On 22 October 2009, Mr. Orr Joseph Wai Shing resigned as independent non-executive director of the Company. We are unable to obtain representation from the former directors/directors/management whether these financial statements present a true and fair view of the state of affairs of the Group as at 31 December 2009 and the results of the Group for the year then ended.

As explained in Note 2.1 to the financial statements, the Provisional Liquidators prepared the consolidated financial statements for the year ended 31 December 2009 based on books and records made available to them. The Provisional Liquidators make no representation as to the completeness and accuracy of the information contained in these financial statements and, as a consequence, the Provisional Liquidators are not making any representation that these financial statements of the Group present a true and fair view of the state of affairs of the Group as at 31 December 2009 and the results of the Group for the year then ended.

The lack of representation from the former directors/directors/management/Provisional Liquidators on the completeness and accuracy of the information contained in these financial statements constitutes a limitation of the scope of our audit.

3. Departure from the Hong Kong Financial Reporting Standards

As explained in Note 2.3 to the financial statements, a number of disclosures as required by the Hong Kong Financial Reporting Standards have not been made in these financial statements as the Provisional Liquidators did not have sufficient data and information as a result of unavailability of complete books and records of some of the subsidiaries of the Group. Accordingly, certain disclosures in these financial statements are not in full compliance with the relevant Hong Kong Financial Reporting Standards.

4. Scope Limitation – Opening balances and comparative figures

Our audit opinion on the consolidated financial statements of the Group for the year ended 31 December 2008 (the “2008 Financial Statements”), which form the basis for the corresponding figures presented in the current year’s consolidated financial statements, was disclaimed because of the significance of the possible effect of the limitations on the scope of our audit and the fundamental uncertainty in relation to going concern. Accordingly, we were then unable to form an opinion as to whether the 2008 Financial Statements gave a true and fair view of the state of affairs of the Group as at 31 December 2008 and of the Group’s results for the year then ended.

5. Loss on deconsolidation of subsidiaries, impairment on investment costs and amounts due from deconsolidated subsidiaries, amounts recovered from deconsolidated subsidiaries

As explained in Note 2.2 to the financial statements, the Provisional Liquidators consider that the control of the Company over certain subsidiaries has been lost subsequent to the year ended 31 December 2008. Therefore, such subsidiaries have not been consolidated in the Group’s consolidated financial statements for the year ended 31 December 2008.

The impairment on the amounts due from deconsolidated subsidiaries of approximately RMB7,832,000, which were funds transferred from a subsidiary, Bloxworth Enterprises Limited, during the year and amounts recovered from deconsolidated subsidiaries of RMB4,381,000 have been recognized in the consolidated statement of comprehensive income.

Whilst the Provisional Liquidators consider that the exclusion of these subsidiaries present more fairly the Group’s financial position and the results for the year in the circumstances, the exclusion of the financial position and results of these subsidiaries in the consolidated financial statements is a departure from the requirements of Hong Kong Accounting Standard 27 “Separate and Consolidated Financial Statements”.

Since the Provisional Liquidators consider that the control of the Company over these subsidiaries has been lost and accordingly failed to get access to their books and records, we have not been able to obtain sufficient appropriate audit evidence and explanations to assess the accuracy and completeness of the impairment on amounts due from deconsolidated subsidiaries and amounts recovered from deconsolidated subsidiaries.

6. *Scope Limitation – Transactions, income and expense items for the year/lack of complete books and records of the Company and a subsidiary*

As detailed in Note 2.1 to the financial statements, the preparation of the consolidated financial statements for the year ended 31 December 2009 are based on the books and records made available to the Provisional Liquidators. The Provisional Liquidators considered that certain books and records of the Company and a subsidiary, Bloxworth Enterprises Limited, was not complete for the year ended 31 December 2009.

- (a) Included in the Company's bank borrowings were amounts of approximately RMB2,472,000, which we have been unable to obtain sufficient evidences to verify the accuracy and completeness of these balances and the related income and expenses to be recognized in the consolidated financial statements.
- (b) Included in other income and administrative expenses in the consolidated statement of comprehensive income were sundry income of approximately RMB660,000 and other expenses of approximately RMB1,366,000 arising from unreconciled credit balance or debit balance of bank accounts of the Company and a subsidiary closed during the year respectively. We have been unable to obtain sufficient evidences to verify the nature, accuracy and completeness of these amounts.

There are no other alternative audit procedures we could adopt to satisfy ourselves that the bank borrowings and the related income and expense items, other income and administrative expenses of approximately RMB2,472,000, RMB660,000 and RMB1,366,000 respectively were properly accounted for in the consolidated financial statements for the year ended 31 December 2009 and these balances were free from material misstatement and were fairly stated.

7. *Scope Limitation – Impairment of property, plant and equipment*

Included in the consolidated statement of financial position at 31 December 2009 were property, plant and equipment with an aggregate carrying amount of approximately RMB65,529,000. As set out in Note 2.1 to the financial statements, the Group incurred a loss of approximately RMB8,608,000 for the year ended 31 December 2009 and together with the fact that production activities of certain of the Group's facilities were not in full capacities during the year, in our opinion this constituted an indicator of impairment of property, plant and equipment. However, no impairment loss was recognised for the year ended 31 December 2009. We were unable to satisfy ourselves as to the appropriateness of the assumptions made by the Company regarding the impairment review of the property, plant and equipment in the absence of their value-in-use calculation and accordingly, we were unable to assess whether the recoverable amounts of property, plant and equipment exceeded their carrying amounts as at 31 December 2009 and whether any impairment loss should be recognised in accordance with Hong Kong Accounting Standard 36 "Impairment of Assets".

8. *Scope Limitation – Inventories*

We were appointed auditors of the Group on 2 February 2010 by the Provisional Liquidators to report on the consolidated financial statements for the year ended 31 December 2009. In consequence, we were unable to attend the Company's physical inventory count at 31 December 2009. We were invited to attend the inventory count which the Company further carried out on 5 May 2010. However, we had not been provided with sufficient evidence and detailed movements of inventories between the date of physical inventory count and the financial reporting date to verify the existence, completeness and valuation of the inventories at 31 December 2009. There were no other satisfactory alternative audit procedures that we could adopt to satisfy ourselves that the inventories as stated in the consolidated statement of financial position as at 31 December 2009 were free from material misstatement and were fairly stated.

9. *Scope Limitation – Provision for bank loans guarantee for a deconsolidated subsidiary*

As disclosed in Note 25 to the financial statements, as at 31 December 2009, the Group had made full provision for bank loans guarantee for a deconsolidated subsidiary of approximately RMB29,000,000. Since no direct confirmation from third parties and other sufficient evidence have been received by us up to the date of this report, we were unable to assess the accuracy and completeness of this liability. There are no other satisfactory alternative procedures that we could perform to satisfy ourselves that the balance and related disclosures have been properly recorded and reflected in the consolidated financial statements as at 31 December 2009.

10. *Scope Limitation – Commitment, contingent liabilities and related party transactions*

As disclosed in Note 2, 31, 32, 33 and 35 to the financial statements, the Provisional Liquidators make no representation as to the completeness and accuracy of the information contained in these consolidated financial statements and the completeness of the disclosure of commitments, contingent liabilities and related party transactions and balances in the consolidated financial statements as at 31 December 2009. Therefore we were unable to satisfy ourselves as to the existence and completeness of the disclosures of commitment, contingent liabilities and related party transactions as at 31 December 2009.

11. *Scope Limitation – Events after the reporting period*

As disclosed in Note 2.1 to the financial statements, the preparation of the financial statements for the year ended 31 December 2009 are based on the books and records made available to the Provisional Liquidators and the Provisional Liquidators make no representation to the completeness of the books and records. We were unable to perform the audit procedures that we consider necessary to complete our review of events after the reporting period from the end of the reporting period up to the date of this report. Such procedures might result in the identification of adjustments to the amounts reported in the consolidated financial statements and/or additional disclosures in respect of events after the reporting period.

Any adjustments to the figures above might have a significant consequential effect on the Group's results for two years ended 31 December 2008 and 2009, the financial positions of the Group as at 31 December 2008 and 2009, and the related disclosures thereof in the consolidated financial statements.

Fundamental uncertainty relating to the going concern basis

In forming our opinion, we have considered the adequacy of the disclosures made in Note 2.1 to the financial statements which explain the circumstances giving rise to the fundamental uncertainty. The appropriateness of preparing the Group's consolidated financial statements on the going concern basis depends on the successful outcome of the conclusion of the resumption proposal and the scheme of arrangement.

We consider that appropriate disclosures have been made; however, we consider that this material uncertainty is so fundamental that we disclaim our opinion in respect of the appropriateness of the going concern basis. The financial statements of the Group do not include any adjustments that would be necessary if the Group failed to operate as a going concern. Had the going concern basis not been used, adjustments would have to be made to reduce the carrying values of the Group's assets to their recoverable amounts, to provide further liabilities which might arise, and to reclassify non-current assets and non-current liabilities as current assets and current liabilities respectively. Such adjustments may have a consequential significant effect on the net liabilities of the Group as at 31 December 2009 and the Group's loss attributable to the equity holders of the Company for the year then ended.

Disclaimer of opinion

Because of the significance of the matters described in the basis for disclaimer of opinion paragraphs, we do not express an opinion on the consolidated financial statements as to whether they give a true and fair view of the state of affairs of the Group as at 31st December 2009 and of the Group's loss for the year then ended in accordance with Hong Kong Financial Reporting Standards and as to whether they have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Report on matters under sections 141(4) and 141(6) of the Hong Kong Companies Ordinance

In respect alone of the limitation on our work relating to the matters described in the basis for disclaimer of opinion paragraphs:

- we have not obtained all the information and explanations that we considered necessary for the purpose of our audit; and
- we were unable to determine whether proper books of account had been kept.

World Link CPA Limited
Certified Public Accountants
Hong Kong, 28 October 2010

Fung Tze Wa
Practising Certificate Number: P01138

3. FINANCIAL INFORMATION

Set out below are the unaudited financial statements together with the relevant notes thereto as extracted from the interim report of the Company for the six months ended 30 June 2012.

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2012

	Notes	Six months ended 30 June	
		2012 RMB'000 (Unaudited)	2011 RMB'000 (Unaudited)
Revenue	4	54,835	63,529
Cost of sales		<u>(45,509)</u>	<u>(51,852)</u>
Gross profit		9,326	11,677
Other revenue		80	2,074
Restructuring costs and expenses		–	(2,745)
Selling and distribution expenses		(2,890)	(2,983)
Miscellaneous expenses		–	(58)
Administrative expenses		<u>(6,732)</u>	<u>(704)</u>
(Loss)/profit from operations		(216)	7,261
Finance costs	5	<u>(663)</u>	<u>(3,326)</u>
(Loss)/profit before tax	6	(879)	3,935
Income tax expense	7	<u>(1,890)</u>	<u>(2,035)</u>
(Loss)/profit for the period attributable to owners of the Company		(2,769)	1,900
Other comprehensive income			
Exchange differences arising on translating of foreign operation		<u>205</u>	<u>–</u>
Total comprehensive (expenses)/income for the period attributable to owners of the Company		<u><u>(2,564)</u></u>	<u><u>1,900</u></u>
(Loss)/earnings per share	9		
– Basic		<u><u>(RMB0.0087)</u></u>	<u><u>RMB0.0029</u></u>
– Diluted		<u><u>(RMB0.0087)</u></u>	<u><u>RMB0.0029</u></u>

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 June 2012

	<i>Notes</i>	30 June 2012 <i>RMB'000</i> (Unaudited)	31 December 2011 <i>RMB'000</i> (Audited)
Non-current assets			
Property, plant and equipment	<i>10</i>	68,496	59,981
Deposit paid for acquisition of property, plant and equipment		—	6,102
		<u>68,496</u>	<u>66,083</u>
Current assets			
Inventories		3,439	3,294
Trade and other receivables	<i>11</i>	63,257	64,990
Bank balances and cash		15,325	21,877
		<u>82,021</u>	<u>90,161</u>
Current liabilities			
Trade and other payables	<i>12</i>	8,069	11,961
Tax payable		2,924	4,657
		<u>10,993</u>	<u>16,618</u>
Net current assets		<u>71,028</u>	<u>73,543</u>
Non-current liabilities			
Convertible loan notes	<i>13</i>	7,920	7,405
Deferred tax liabilities		3,024	2,588
		<u>10,944</u>	<u>9,993</u>
Net assets		<u><u>128,580</u></u>	<u><u>129,633</u></u>
Capital and reserves			
Share capital	<i>14</i>	708	698
Reserves		127,872	128,935
		<u>128,580</u>	<u>129,633</u>

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2012

	Share capital RMB'000 (Note 14)	Share premium RMB'000 (Note a)	Share options reserve RMB'000 (Note b)	Convertible loan notes equity reserve RMB'000 (Note 13)	Translation reserve RMB'000	Surplus reserve fund RMB'000 (Note c)	(Accumulated loss)/ Retained profit RMB'000	Total RMB'000
At 31 December 2011 (as originally stated)	698	288,667	2,673	7,629	150	9,222	(179,406)	129,633
Prior year adjustment (Note 16)	-	(215,765)	-	-	-	-	215,765	-
At 31 December 2011 (as restated) and 1 January 2012	698	72,902	2,673	7,629	150	9,222	36,359	129,633
Loss for the period	-	-	-	-	-	-	(2,769)	(2,769)
Exchange differences arising on translating of foreign operation	-	-	-	-	205	-	-	205
Total comprehensive income (expenses) for the period	-	-	-	-	205	-	(2,769)	(2,564)
Exercise of scheme creditors options	10	1,880	(384)	-	-	-	5	1,511
At 30 June 2012 (Unaudited)	708	74,782	2,289	7,629	355	9,222	33,595	128,580
At 1 January 2011	67,399	215,765	938	-	-	9,222	(404,238)	(110,914)
Profit for the period, representing total comprehensive income for the period	-	-	-	-	-	-	1,900	1,900
At 30 June 2011 (Unaudited)	67,399	215,765	938	-	-	9,222	(402,338)	(109,014)

Notes:

- Under the Companies Law (Revised) Chapter 22 of the Cayman Islands, the share premium of the Company is available for paying distributions or dividends to shareholders subject to the provisions of its Memorandum or Articles of Associations and provided that immediately following the distribution or dividends, the Company is able to pay its debts as they fall due in the ordinary course of business.
- Share options reserve represents the portion of the grant date fair value of unexercised share options granted under the share option scheme or unexercised scheme creditors options granted under the debt restructuring as mentioned in 2011 annual report of the Company for the year ended 31 December 2011 (“**2011 Annual Report**”).
- According to the relevant enterprises regulations in the People’s Republic of China (the “**PRC**”), 山西展鹏金屬製品有限公司 (Shanxi Zhanpen Metal Products Co., Ltd.) (“**Zhanpen**”), a subsidiary established in the PRC is required to transfer not less than 10% of their profit after taxation to surplus reserve until the balance reaches 50% of its registered capital, as determined under accounting principles generally accepted in the PRC. The surplus reserve fund can be used to make up for previous year’s losses, expand the existing operations or convert into additions capital of the subsidiary.

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2012

	Six months ended 30 June	
	2012	2011
	<i>RMB'000</i>	<i>RMB'000</i>
	(Unaudited)	(Unaudited)
Net cash used in operating activities	(2,048)	(5,652)
Net cash used in investing activities	(6,220)	–
Net cash from financing activities	<u>1,511</u>	<u>4,560</u>
Net decrease in cash and cash equivalents	(6,757)	(1,092)
Cash and cash equivalents at the beginning of the period	21,877	2,649
Effect of foreign exchange rates changes, net	<u>205</u>	<u>–</u>
Cash and cash equivalents at the end of period	<u>15,325</u>	<u>1,557</u>
Analysis of the balances of cash and cash equivalents		
Cash and bank balances	<u><u>15,325</u></u>	<u><u>1,557</u></u>

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the six months ended 30 June 2012

1. General

China Packaging Group Company Limited (the “**Company**”) was incorporated as an exempted company with limited liability in the Cayman Islands on 21 October 2002 under the Companies Law of the Cayman Islands. The address of its registered office is Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman KY1-1111, Cayman Islands. The principal place of business is Suite 06-07, 28th Floor, Shui On Centre, 6-8 Harbour Road, Wanchai, Hong Kong. The shares of the Company are listed on the Main Board of The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”).

The Company is an investment holding company. The Company and its subsidiaries (hereinafter collectively referred to as the “**Group**”) are principally engaged in the manufacture and sale of tinplate cans for the packaging of beverage in Shanxi, the People’s Republic of China (the “**PRC**”).

The unaudited condensed consolidated interim financial statements are presented in RMB, unless otherwise stated.

2. Basis of preparation

This unaudited condensed consolidated interim financial statements have been prepared in accordance with Hong Kong Accounting Standard (“**HKAS**”) 34 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants (“**HKICPA**”), the applicable disclosure requirements of Appendix 16 to of the Rules Governing the Listing of Securities on the Stock Exchange (the “**Listing Rules**”) and the same accounting policies as those adopted in the 2011 Annual Report. These unaudited condensed consolidated interim financial statements do not included all the information and disclosure required for an annual financial statement and should be read in conjunction with the 2011 Annual Report.

The condensed consolidated interim financial statement is unaudited and has been reviewed by the audit committee of the Company.

3. Principal accounting policies

The unaudited condensed consolidated interim financial statements have been prepared on the historical cost basis except for certain financial instruments, which are measured at their fair values.

Except as described below, the principal accounting policies and basis of preparation used in the preparation of the unaudited condensed consolidated financial results for the six months ended 30 June 2012 are consistent with those adopted in preparing the audited consolidated financial statements of the Group for the year ended 31 December 2011.

In the current interim period, the Group has applied, for the first time, the following new or revised standards and amendments (“**new and revised HKFRSs**”) issued by the HKICPA:

HKFRS 1 (Amendments)	Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters
HKFRS 7 (Amendments)	Disclosures – Transfers of Financial Assets
HKAS 12 (Amendments)	Deferred tax: Recovery of underlying assets

The adoption of the above new and revised HKFRSs in the current interim period has had no material impact on the accounting policies of the Group and the methods of computation in the Group’s unaudited condensed consolidated financial statements.

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

4. Revenue and segment information

Revenue, which is also the Group’s turnover, represents the net amounts received and receivable for goods sold during the period.

Information reported to the executive directors of the Company, being the chief operating decision maker, for the purposes of resource allocation and assessment of segment performance focuses on types of goods delivered or provided.

The chief operating decision maker assesses the performance of the Group’s manufacture and sale of tinplate cans packaging business on both geographic and product perspectives. Geographically, chief operating decision maker considers the Group’s business is primarily operated in the PRC and the Group’s revenue from external customers is derived solely from the manufacture and sale of tinplate cans packaging in the PRC. All of the Group’s business activities are included in a single reportable segment in accordance with HKFRS 8 “Operating segments”. As such, no segment information is presented.

5. Finance costs

	Six months ended 30 June	
	2012	2011
	<i>RMB’000</i>	<i>RMB’000</i>
	(Unaudited)	(Unaudited)
Interests on:		
Overdue bank borrowings (<i>Note</i>)	–	1,821
Overdue other borrowings (<i>Note</i>)	–	1,215
Overdue other financial liabilities (<i>Note</i>)	–	290
	–	3,326
Effective interest expense on convertible loan notes	663	–
	663	3,326

Note:

Upon the sanction of the Schemes as defined in the 2011 Annual Report, the finance costs of bank borrowings, other borrowings and other financial liabilities incurred for the six months ended 30 June 2011 have been discharged. The discharged amount formed part of the gain on restructuring as mentioned in 2011 Annual Report.

6. (Loss)/profit before tax

	Six months ended 30 June	
	2012	2011
	<i>RMB'000</i>	<i>RMB'000</i>
	(Unaudited)	(Unaudited)
(Loss)/profit before tax has been arrived at after charging (crediting):		
Cost of inventories recognized as an expense	45,509	51,852
Depreciation of property, plant and equipment	3,887	3,697
Minimum lease payments in respect of:		
– Machinery and equipment	1,100	1,000
Interest income on bank deposits	(80)	–
	<u>45,509</u>	<u>51,852</u>

7. Income tax expense

	Six months ended 30 June	
	2012	2011
	<i>RMB'000</i>	<i>RMB'000</i>
	(Unaudited)	(Unaudited)
Current tax:		
– PRC Enterprise Income Tax (“EIT”)	1,454	2,035
Deferred tax:		
– Mainland China withholding tax	436	–
	<u>1,890</u>	<u>2,035</u>

Notes:

- (a) No Hong Kong Profits Tax has been provided for as the Group did not generate any assessable profits in Hong Kong for both periods. No deferred tax asset has been recognized due to the unpredictability of future profit streams. The losses may be carried forward indefinitely.
- (b) Under the Law of the PRC on EIT (the “EIT Law”) and Implementation Regulation of the EIT Law, the tax rate of the PRC subsidiary is 25% from 1 January 2008 onwards.
- (c) Pursuant to the PRC EIT Law which became effective on 1 January 2008, a 10% withholding tax is levied on dividends declared to foreign investors from the foreign investment enterprises established in the PRC effective from 1 January 2008. On 22 February 2008, Caishui (2008) No. 1 was promulgated by the tax authorities to specify that dividends declared and remitted out of the PRC from the retained profits as at 31 December 2007 are exempted from withholding tax.

8. Dividend

No dividend were paid, declared or proposed during both interim periods. The Board does not recommend the payment of any interim dividend.

9. (Loss) earnings per share**(a) Basic**

The calculation of the basic (loss) earnings per share is based on the following data:

	Six months ended 30 June	
	2012	2011
	<i>RMB'000</i>	<i>RMB'000</i>
	(Unaudited)	(Unaudited)
(Loss)/profit for the period attributable to owners of the Company for the purposes of basic (loss) earnings per share	<u>(2,769)</u>	<u>1,900</u>
	Six months ended 30 June	
	2012	2011
Number of shares:		
Weighted average number of ordinary shares for the purpose of basic (loss) earnings per share	<u>319,164,345</u>	<u>657,121,081</u>

(b) Diluted*Six months ended 30 June 2012*

The basic and diluted loss per share will be the same as the computation of diluted loss per share was prepared on the assumption of no conversion of the Company's outstanding options, convertible preference shares or convertible loan notes of which the exercise may result in a decrease in loss per share.

Six months ended 30 June 2011

Trading in the shares of the Company has been suspended during the six months ended 30 June 2011 and no information of the average market price per share for the period is available. As the exercise price of the options is higher than the market price for shares immediately before the suspension of trading in the Company's shares, the computation of diluted earnings per share does not assume the exercise of the Company's outstanding share options.

10. Property, plant and equipment

During the six months ended 30 June 2012, the Group acquired approximately RMB12.4 million (six months ended 30 June 2011: Nil) of plant and equipment.

11. Trade and other receivables

	At 30 June 2012 <i>RMB'000</i> (Unaudited)	At 31 December 2011 <i>RMB'000</i> (Audited)
Trade receivables	62,620	62,793
Other receivables, deposits and prepayments	637	2,197
	<u>63,257</u>	<u>64,990</u>

The Group generally allows an average credit period of 120 days to its customers. The following is an aged analysis of trade receivables presented based on the invoice date at the end of the reporting period:

	At 30 June 2012 <i>RMB'000</i> (Unaudited)	At 31 December 2011 <i>RMB'000</i> (Audited)
0 – 30 days	8,549	16,524
31 – 60 days	9,779	16,239
61 – 90 days	10,996	13,215
91 – 120 days	10,326	11,539
Over 120 days	22,970	5,276
	<u>62,620</u>	<u>62,793</u>

12. Trade and other payables

	At 30 June 2012 <i>RMB'000</i> (Unaudited)	At 31 December 2011 <i>RMB'000</i> (Audited)
Trade payables	5,483	8,561
Other payables and accrued charges	2,586	3,400
	<u>8,069</u>	<u>11,961</u>

The following is an aged analysis of trade payables presented based on the invoice date at the end of the reporting period:

	At 30 June 2012 <i>RMB'000</i> (Unaudited)	At 31 December 2011 <i>RMB'000</i> (Audited)
0 – 30 days	<u>5,483</u>	<u>8,561</u>

The average credit period on purchases of goods is 30 days. The Group has financial risk management policies in place to ensure that all trade payables would be settled within the credit timeframe.

13. Convertible loan notes

Reference is made to the 2011 Annual Report, on 1 November 2011, the Company issued 2% convertible loan notes with a principal amount of HKD18,000,000 (“**Convertible Loan Notes**”) to the investors of the Company (the “**Investors**”) upon the completion of restructuring of the Group, which details were set out in 2011 Annual Report.

The Convertible Loan Notes are unsecured and denominated in HKD. Pursuant to a meeting of the Board held on 1 November 2011 and a confirmation from the holders of the Convertible Loan Notes, all the interests and repayment of the principal of the Convertible Loan Notes in future shall be settled in RMB (ie: the functional currency of the Group) and notwithstanding any change in exchange rate between HKD and RMB in future, the exchange rate for conversion of any payment under the Convertible Loan Notes from HKD to RMB has been fixed at 1.21, which is the exchange rate as at 1 November 2011. As a result, although the Convertible Loan Notes are not denominated in the functional currency of the Group, the conversion option will be settled by the exchange of a fixed amount of cash or another financial asset for a fixed number of the Company’s own equity instruments.

The Convertible Loan Notes entitle the Investors to convert them into ordinary shares of the Company at any time between the date of issue of the Convertible Loan Notes and before 7 business days of their settlement date on 31 October 2016 at a conversion price of HKD0.12 per share, subject to adjustment. If the Convertible Loan Notes have not been converted, they will be redeemed on 31 October 2016 at its face value.

The Convertible Loan Notes contain two components, liability and equity elements. The equity element is presented in equity heading “convertible loan notes equity reserve”. The effective interest rate of the liability component is 17% per annum.

The movement of the liability component of the Convertible Loan Notes during the period is set out below:

	<i>RMB'000</i>
Nominal value of the Convertible Loan Notes (equivalent to HKD18,000,000)	14,876
<i>Less:</i> Equity component at the date of issuance	<u>(7,629)</u>
Liability component at the date of issuance	7,247
Interest charged for the year ended 31 December 2011	208
Interest paid for the year ended 31 December 2011	<u>(50)</u>
Liability component at 31 December 2011	7,405
Interest charged for the six months ended 30 June 2012	663
Interest paid for the six months ended 30 June 2012	<u>(148)</u>
Liability component at 30 June 2012	<u><u>7,920</u></u>

14. Share capital

	Par value per share <i>HKD</i>	Number of ordinary shares <i>(Note a)</i>	Number of convertible preference shares <i>(Note b)</i>	Amount <i>HKD'000</i>
<i>Authorised:</i>				
At 31 December 2011 and 30 June 2012 <i>(Note c)</i>	<u>0.001</u>	<u>249,480,000,000</u>	<u>520,000,000</u>	<u>250,000</u>

	Par value per share HKD	Number of ordinary shares (Note a)	Number of convertible preference shares (Note b)	Amount HKD'000	Equivalent to RMB'000
<i>Issued and fully paid:</i>					
At 1 January 2011	0.1	657,121,081	–	65,712	67,399
Capital consolidation (Note d)	N/A	(574,980,946)	–	–	–
	0.8	82,140,135	–	65,712	67,399
Capital reduction (Note e)	N/A	–	–	(65,630)	(67,314)
	0.001	82,140,135	–	82	85
Subscription of new shares by Investors (Note f)	0.001	230,000,000	–	230	187
Subscription of convertible preference shares by Investors (Note g)	0.001	–	520,000,000	520	425
Bonus issue (Note h)	0.001	1,067,822	–	1	1
At 31 December 2011	0.001	313,207,957	520,000,000	833	698
Exercise of scheme creditors options	0.001	12,381,813	–	12	10
At 30 June 2012	0.001	<u>325,589,770</u>	<u>520,000,000</u>	<u>845</u>	<u>708</u>

Notes:

- a) All the ordinary shares which were issued by the Company rank pari passu with each other in all respects.
- b) All the convertible preference shares which were issued by the Company rank pari passu with each other in all respects. The principal terms of the convertible preference shares on the date of issue include the following:

i) Dividend

The holders of the convertible preference shares of HKD0.001 each shall not be entitled to any dividend or distribution.

ii) Capital

On a return of capital on liquidation, the assets of the Company available for distribution among the members shall be applied in repaying to the holders of the preference shares the nominal amount paid up on the preference shares. The paid-up preference shares shall rank for return of capital on liquidation in priority to all other shares in the capital of the Company for the time being in issue while the non-paid-up preference shares shall rank pari passu with the new shares for the time being in issue.

iii) Redemption

The preference shares are non-redeemable.

iv) Conversion rights

The convertible preference shares of HKD0.001 each are convertible into new shares of HKD0.001 each (“**New Share**”) after the date of their issuance, subject to an adjustment, at a conversion price of HKD0.12 per New Share, subject to adjustment provisions which are standard terms for convertible securities of similar type.

v) Transferability

The convertible preference shares are freely transferable by the holders thereof after the date of issue of the preference shares, subject to the requirement of the Listing Rules.

vi) Voting

The convertible preference shares holders shall not have the right to receive notice of, or to attend and vote at, general meetings of the Company, unless a resolution is to be proposed at a general meeting of the Company for winding up the Company or which if pass would vary or abrogate the rights or privileges of the convertible preference shares.

- c) Following the Capital Consolidation and the Capital Reduction as stated and defined in Notes d and e below, the authorised unissued share capital of the Company of HKD134,287,891.90, comprised 1,342,878,919 shares each with a nominal value of HKD0.10, shall be altered so as to be comprised 134,287,891,900 New Shares of HKD0.001 each. At the extraordinary general meeting of the Company held on 6 October 2011, ordinary resolution was passed approving the authorised share capital of the Company be increased from HKD134,370,032.04, divided into 134,370,032,035 shares of HKD0.001 each to HKD250,000,000 divided into 250,000,000,000 shares of HKD0.001 each (consisted with 249,480,000,000 ordinary shares of HKD0.001 each and 520,000,000 preference shares of HKD0.001 each) by the creation of an additional 115,629,967,965 shares of HKD0.001 each.
- d) At the extraordinary general meeting of the Company held on 6 October 2011, special resolution was passed approving the capital consolidation (“**Capital Consolidation**”) that every eight shares of HKD0.10 each in the issued share capital of the Company will be consolidated into one consolidated share with par value of HKD0.80 each (“**Consolidated Share**”).
- e) At the extraordinary general meeting of the Company held on 6 October 2011, special resolution was passed approving upon the Capital Consolidation becoming effective, the par value of each issued Consolidated Share will be reduced from HKD0.80 to HKD0.001 by cancellation of HKD0.799 of the paid-up capital of each issued Consolidated Share (“**Capital Reduction**”). The credit arising as a result of the Capital Consolidation and the Capital Reduction of approximately RMB67,314,000 (equivalent to approximately HKD65,630,000) has been applied to reduce the accumulated losses of the Company as permitted by Cayman Companies Law during the year ended 31 December 2011.

- f) At the extraordinary general meeting of the Company held on 6 October 2011, ordinary resolution was passed approving the allotment and issue of 230,000,000 New Shares to the Investors at a subscription price of HKD0.12 per subscription share to raise a total of HKD27,600,000 (approximately RMB22,544,000) pursuant to the terms of the restructuring agreement dated 17 June 2011. The allotment has been made on 1 November 2011.
- g) On 1 November 2011, the Company issued 520,000,000 convertible preference shares with a par value of HKD0.001 each at a price of HKD0.12 each to raise a total of HKD62,400,000 (approximately RMB50,971,000). The directors of the Company considered that as the convertible preference share is not entitled to any dividend and it is non-redeemable, the convertible preference shares are equity instrument containing equity element only and are presented in equity. During the year ended 31 December 2011 and six months ended 30 June 2012, none of the ordinary shares were issued pursuant to the conversion of the convertible preference shares.
- h) At the extraordinary general meeting of the Company held on 6 October 2011, ordinary resolution was passed approving the bonus issue to the shareholders of the Company whose names appear on the registers of members of the Company on 20 October 2011 on the basis of 13 bonus shares, credited as fully paid at par, for every 1,000 New Shares of the Company. Allotment was made on 2 November 2011.

15. Related party transactions

During the six months ended 30 June 2012, an interest expenses of approximately RMB45,000 (six months ended 30 June 2011: Nil) on Convertible Loan Notes of the Company has been paid to Business Giant Limited, in which Mr. Leung Heung Ying Alvin, the director of the Company, is the sole director and shareholder.

16. Prior year adjustment

As mentioned in 2011 Annual Report, the Company has completed a Capital Consolidation and the Capital Reduction. At the time of completion Capital Consolidation and the Capital Reduction, the existing share premium of approximately RMB215,765,000 would off-set against the accumulated losses of the Company. As such, the financial information of the year ended 31 December 2011 has been restated. The effects of the restatement by line items are as follows:

At 31 December 2011	<i>RMB'000</i>
(Decrease) in share premium	(215,765)
Increase in retained profit	215,765

The above prior year adjustment does not have any impact on the results of the Group for the year ended 31 December 2011 nor have any impact on the net assets of the Group at 31 December 2011.

17. Contingent liabilities

At 30 June 2012, the Group did not have any significant contingent liabilities (31 December 2011: nil).

18. Commitments***Operating lease commitment – the Group as lessee***

At 30 June 2012, the Group had commitments for future minimum lease payments under non-cancelable operating leases which fall due as follows:

	30 June 2012	31 December 2011
	<i>RMB'000</i>	<i>RMB'000</i>
	(Unaudited)	(Audited)
Within one year	2,599	2,589
In the second to the fifth year inclusive	<u>6,803</u>	<u>6,626</u>
	<u><u>9,402</u></u>	<u><u>9,215</u></u>

Operating lease payments represent rentals payable by the Group for certain of its premises, plant and machinery, and office equipment. Leases are negotiated for an average term of 5 years (31 December 2011: 5 years) and no arrangements have been entered into for contingent rental payments.

Capital commitment

The Group does not have any significant capital commitments for the six months period ended 30 June 2012 (31 December 2011: RMB4.07 million).

19. Share option scheme***(a) Incentive Share Option Scheme***

The Company has a share option scheme for eligible directors of the Company and eligible employees of the Group and other participants. Options granted must be taken up within 21 days of the date of grant, upon payment of HK\$1 per each grant of options. Options may be exercised at any time from the date of acceptance of the share option to such date as determined by the board of directors but in any event not exceeding 10 years.

At the extraordinary general meeting of the Company held on 22 February 2012, ordinary resolutions were passed for the adoption of a new share option scheme and the termination of the existing share option scheme adopted by the Company on 2 June 2003. For details, please refer to the circular of the Company dated 6 February 2012.

Details of the share options outstanding at the end of the reporting period are as follows:

	Number of Share options
Outstanding at 30 June 2012 and at 31 December 2011	<u>1,430,862</u>

No share options were lapsed and no share option has been granted during the six months period ended 30 June 2012 (six months ended 30 June 2011: Nil).

During the current period, no expenses was recognized by the Group (six months ended 30 June 2010: Nil) in relation to share options granted by the Company.

(b) Creditors Options

On 1 November 2011, as part of the Company's debt restructuring, the Company granted a total of 56,000,000 Creditors Options to the Scheme Administrators for the benefits of the Scheme Creditors. The Creditors Options are exercisable for a period of one year commencing from the date of grant at an initial exercise price of HKD0.15 per Creditors Options, subject to adjustment.

During the six months ended 30 June 2012, 12,381,813 Creditors Options were exercised (Year ended 31 December 2011: Nil) resulting in additional 12,381,813 ordinary shares of the Company, additional share capital of approximately HKD12,000 (equivalent to approximately RMB10,000) and additional share premium of approximately HKD1,845,000 (equivalent to approximately RMB1,880,000). No Creditors Options was forfeited or expired during such period (Year ended 31 December 2011: Nil). At 30 June 2012, the Company has 43,618,187 Creditors Options outstanding (31 December 2011: 56,000,000). The exercise in full of the remaining Creditors Options would result in issue of 43,618,187 additional ordinary shares of the Company, additional share capital of HKD43,618.187 and additional share premium of HKD6,499,109.863 (before the issue expenses).

20. Subsequent event

To the best of the Board's knowledge and information, and save for the information disclosed in this report, the Board is unaware of any other significant subsequent event that should be disclosed.

Set out below are the audited financial statements together with the relevant notes thereto as extracted from the annual report of the Company for the year ended 31 December 2011.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2011

	<i>Notes</i>	2011 <i>RMB'000</i>	2010 <i>RMB'000</i>
Revenue	6	142,311	124,812
Cost of sales		<u>(115,690)</u>	<u>(101,917)</u>
Gross profit		26,621	22,895
Other revenue	7	56	7,620
Selling and distribution expenses		(6,932)	(5,605)
Administrative expenses		<u>(3,439)</u>	<u>(2,966)</u>
Operating profit		16,306	21,944
Gain on restructuring	8	161,733	–
Restructuring costs and expenses		(8,389)	(3,507)
Waived of other financial liabilities	25	–	1,671
Finance costs	9	<u>(6,186)</u>	<u>(5,460)</u>
Profit before tax		163,464	14,648
Income tax expense	10	<u>(5,946)</u>	<u>(5,401)</u>
Profit for the year attributable to owners of the Company	11	157,518	9,247
Other comprehensive income			
Exchange differences arising on translation		<u>150</u>	<u>–</u>
Total comprehensive income for the year attributable to owners of the Company		<u><u>157,668</u></u>	<u><u>9,247</u></u>
Earnings per share attributable to owners of the Company	14		
– Basic		<u>RMB1.29</u>	<u>RMB0.11 (Restated)</u>
– Diluted		<u>RMB0.19</u>	<u>RMB0.11 (Restated)</u>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2011

	<i>Notes</i>	2011 <i>RMB'000</i>	2010 <i>RMB'000</i>
NON-CURRENT ASSETS			
Property, plant and equipment	<i>15</i>	59,981	64,247
Deposit paid for acquisition of property, plant and equipment		6,102	–
		<u>66,083</u>	<u>64,247</u>
CURRENT ASSETS			
Inventories	<i>17</i>	3,294	3,173
Trade and other receivables	<i>18</i>	64,990	48,825
Escrow money	<i>19</i>	–	888
Bank balances and cash	<i>20</i>	21,877	2,649
		<u>90,161</u>	<u>55,535</u>
CURRENT LIABILITIES			
Trade and other payables	<i>21</i>	11,961	13,490
Tax payable		4,657	4,303
Bank borrowings	<i>22</i>	–	61,146
Other borrowings	<i>23</i>	–	48,626
Provision for bank loans guarantee for a deconsolidated subsidiary	<i>24</i>	–	29,000
Loan from an investor	<i>26</i>	–	5,078
Amount due to an investor	<i>27</i>	–	265
Other financial liabilities	<i>28</i>	–	67,575
		<u>16,618</u>	<u>229,483</u>
NET CURRENT ASSETS (LIABILITIES)		<u>73,543</u>	<u>(173,948)</u>
NON-CURRENT LIABILITIES			
Convertible loan notes	<i>29</i>	7,405	–
Deferred tax liabilities	<i>30</i>	2,588	1,213
		<u>9,993</u>	<u>1,213</u>
NET ASSETS (LIABILITIES)		<u>129,633</u>	<u>(110,914)</u>
CAPITAL AND RESERVES			
Share capital	<i>31</i>	698	67,399
Reserves		128,935	(178,313)
		<u>129,633</u>	<u>(110,914)</u>

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2011

	Share capital RMB'000 (Note 31)	Share premium RMB'000 (Note a)	Share options reserve RMB'000 (Note b)	Convertible loan notes equity reserve RMB'000 (Note 29)	Translation reserve RMB'000	Surplus reserve fund RMB'000 (Note c)	Accumulated losses RMB'000	Total RMB'000
At 1 January 2010	67,399	215,765	13,699	-	-	9,222	(426,246)	(120,161)
Profit for the year, representing total comprehensive income for the year	-	-	-	-	-	-	9,247	9,247
Lapsed of share options	-	-	(12,761)	-	-	-	12,761	-
At 31 December 2010	67,399	215,765	938	-	-	9,222	(404,238)	(110,914)
Profit for the year	-	-	-	-	-	-	157,518	157,518
Exchange differences arising on translating foreign operations	-	-	-	-	150	-	-	150
Total comprehensive income for the year	-	-	-	-	150	-	157,518	157,668
Capital Reduction	(67,314)	-	-	-	-	-	67,314	-
Subscription of New Shares by Investors	187	22,357	-	-	-	-	-	22,544
Subscription of Convertible Preference Shares by investors	425	50,546	-	-	-	-	-	50,971
Bonus Issue	1	(1)	-	-	-	-	-	-
Issuance of Scheme Creditors Options	-	-	1,735	-	-	-	-	1,735
Issuance of Convertible Loan Notes	-	-	-	7,629	-	-	-	7,629
At 31 December 2011	698	288,667	2,673	7,629	150	9,222	(179,406)	129,633

Notes:

- Under the Companies Law (Revised) Chapter 22 of the Cayman Islands, the share premium of the Company is available for paying distributions or dividends to shareholders subject to the provisions of its Memorandum or Articles of Associations and provided that immediately following the distribution or dividends, the Company is able to pay its debts as they fall due in the ordinary course of business.
- Share options reserve represents the portion of the grant date fair value of unexercised share options granted under the share option scheme or unexercised Creditors Options granted under the Debt Re-structuring as mentioned in Note 2 to the consolidated financial statement adopted by the Company.
- According to the relevant enterprises regulations in the People's Republic of China (the "PRC"), Shanxi Zhanpen Metal Products Co., Ltd. ("Zhanpen"), a subsidiary established in the PRC is required to transfer not less than 10% of their profit after taxation to surplus reserve until the balance reaches 50% of its registered capital, as determined under accounting principles generally accepted in the PRC. The surplus reserve fund can be used to make up for previous year's losses, expand the existing operations or convert into additions capital of the subsidiary.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2011

	2011 RMB'000	2010 RMB'000
OPERATING ACTIVITIES		
Profit before tax	163,464	14,648
Adjustments for:		
Finance costs	6,186	5,460
Interest income	(56)	–
Depreciation of property, plant and equipment	7,294	6,220
Net foreign exchange gain	–	(7,415)
Waived of other financial liabilities	–	(1,671)
Gain on disposal of property, plant and equipment	–	(11)
Gain on restructuring	(161,733)	–
Operating cash flows before movements in working capital	15,155	17,231
(Increase) decrease in inventories	(121)	384
Increase in trade and other receivables	(16,165)	(20,179)
Decrease in escrow money	888	3,385
Increase in trade and other payables	891	7,075
Cash generated from operations	648	7,896
Income tax paid	(4,217)	(1,856)
Interest paid	(55)	–
NET CASH (USED IN) FROM OPERATING ACTIVITIES	(3,624)	6,040
INVESTING ACTIVITIES		
Interest received	56	–
Purchase of property, plant and equipment	(3,028)	(5,385)
Proceeds from disposals of property, plant and equipment	–	458
Deposit paid for acquisition of property, plant and equipment	(6,102)	–
NET CASH USED IN INVESTING ACTIVITIES	(9,074)	(4,927)
FINANCING ACTIVITIES		
Advancement of loan from Investors	9,097	857
Increase in amount due to an investor	222	268
Cash inflow from restructuring, net	22,457	–
NET CASH FROM FINANCING ACTIVITIES	31,776	1,125
NET INCREASE IN CASH AND CASH EQUIVALENTS	19,078	2,238
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR	2,649	411
Effect of foreign exchange rates changes, net	150	–
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	21,877	2,649

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2011

1. General

China Packaging Group Company Limited (the “**Company**”) was incorporated as an exempted company with limited liability in the Cayman Islands on 21 October 2002 under the Companies Law of the Cayman Islands. The address of the registered office is Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman KY1-1111, Cayman Islands. The principal place of business is Suite 06-07, 28th Floor, Shui On Centre, 6-8 Harbour Road, Wanchai, Hong Kong. The shares of the Company are listed on the Main Board of The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”).

Pursuant to a petition seeking the Company’s winding up presented by Deutsche Bank Aktiengesellschaft on 8 July 2009, and a subsequent application on 2 October 2009, by DBS Bank (Hong Kong) Limited for a provisional liquidation order to be made against the Company, the High Court of Hong Kong (the “**HK Court**”) appointed Mr. Roderick John Sutton and Mr. Fok Hei Yu, both of FTI Consulting (Hong Kong) Limited (formerly Ferrier Hodgson Limited) (“**Escrow Agent**”), to act as joint and several provisional liquidators (the “**Provisional Liquidators**”) to the Company on the same day. At the HK Court hearing for petition for the sanction of the scheme of arrangement of the Company in Hong Kong (the “**Hong Kong Scheme**”) held on 25 October 2011, the Hong Kong Scheme was sanctioned by the HK Court. On 1 November 2011, the HK Court granted order for the withdrawal of the winding-up petition against the Company presented by Deutsche Bank Aktiengesellschaft on 8 July 2009 and for the discharge of the Provisional Liquidators.

As all of the resumption conditions as set out in the Stock Exchange’s letter dated 26 May 2011 (“**Resumption Conditions**”) have been satisfied and fulfilled on 1 November 2011, trading of the Company’s shares on the Stock Exchange resumed on 4 November 2011 accordingly. The Company’s shares have been suspended from trading since 28 April 2009.

The Company is an investment holding company. The Company and its subsidiaries (hereinafter collectively referred to as the “**Group**”) are principally engaged in the manufacture and sale of tinplate cans for the packaging of beverage in Shanxi, the People’s Republic of China (the “**PRC**”).

The consolidated financial statements are presented in Renminbi (“**RMB**”), unless otherwise stated.

2. Restructuring of the Company

In order to satisfy the Resumption Conditions, the Company, the Provisional Liquidators, Integrated Asset Management (Asia) Limited and Business Giant Limited (hereinafter collectively known as the “**Investors**”) and the Escrow Agent entered into the restructuring agreement dated 17 June 2011 (the “**Restructuring Agreement**”). Details of the Restructuring Agreement were set out in the circular of the Company dated 12 September 2011 (the “**Circular**”). The Hong Kong Scheme and Cayman Scheme (“**Schemes**”) were passed by the creditors with an admitted claims (the “**Scheme Creditors**”) on 21 September 2011 and the resolutions as set out in the notice of the extraordinary general meeting dated 12 September 2011 has been duly passed by way of poll on 6 October 2011. The Restructuring Agreement principally involved the following:

a) Capital Reorganisation

i) Capital Consolidation

Every eight shares of HKD0.10 each in the issued share capital of the Company was consolidated into one consolidated share with par value of HKD0.80 each (“**Consolidated Share**”).

ii) Capital Reduction

Upon the Capital Consolidation becoming effective, the par value of each issued Consolidated Share was reduced from HKD0.80 to HKD0.001 by cancellation of HKD0.799 of the paid-up capital of each issued Consolidated Share.

The Capital Reduction was implemented in accordance with the Cayman Companies Law, with the sanction of the Cayman Court.

iii) Partial Accumulated Loss Set-Off

Upon the Capital Consolidation and the Capital Reduction becoming effective, the credit generated therefrom was applied in a manner consistent with the Cayman Companies Law, including but not limiting to setting off against part of the accumulated losses of the Company of approximately RMB67,314,000 (or equivalent to approximately HKD65,630,000).

iv) Share Split

Following the Capital Consolidation and the Capital Reduction, the authorised unissued share capital of the Company of HKD134,287,891.9, comprised 1,342,878,919 shares each with a nominal value of HKD0.10, was altered so as to be comprised 134,287,891,900 new shares of HKD0.001 each (“**New Shares**”).

b) The Subscription

Subject to the fulfillment of the conditions stated in the Restructuring Agreement (“**Conditions Precedent**”), the Investors subscribed for and the Company had on the completion of the transactions contemplated under the Restructuring Agreement (“**Completion**”) allotted and/or issued:

- i) 230,000,000 subscription shares with par value of HKD0.001 each at a subscription price of HKD0.12 per subscription share (“**Subscription Shares**”) (Note 31(f))
- ii) 520,000,000 preference shares with par value of HKD0.001 each at a subscription price of HKD0.12 per preference share (“**Convertible Preference Shares**”) (Note 31(g))
- iii) 2% convertible loan notes in the aggregate principal amount of HKD18 million which are convertible into ordinary shares of the Company at a conversion price of HKD0.12 per conversion share (“**Convertible Loan Notes**”) (Note 29)

c) Debt Restructuring*i) The Schemes*

The Schemes were passed by Scheme Creditors of the Company on 21 September 2011, pursuant to which:

- all claims against the Company would be compromised, discharged and/or settled;
- the Scheme Creditors would receive pro rata distribution of the cash consideration of HKD62,000,000 (“**Cash Consideration**”);
- the Company would grant the 56,000,000 options (“**Creditors Options**”) to Mr. Fok Hei Yu and Mr. Roderick John Sutton (collectively known as the “**Scheme Administrators**”) to hold for the benefit of the Scheme Creditors pursuant to which, the Scheme Creditors were entitled to subscribe for 56,000,000 New Shares of the Company with an exercise price of HKD0.15 per New Shares (“**Option Shares**”);
- the Investors would grant the put options (“**Put Options**”) for purchasing the Creditors Options to the Scheme Administrators to hold for the benefit of the Scheme Creditors pursuant to which the Scheme Creditors were entitled to put the Creditors Options to the Investors in the ratio of 70% to 30% between Integrated Asset Management (Asia) Limited and Business Giant Limited (“**Relevant Ratio**”) at the put option price of HKD0.02 per Creditors Options within two months from the date of granting the Creditors Options; and

- the Scheme Creditors were entitled to receive ratably all rights, title and interest in the Company’s subsidiaries and associated companies which do not form part of the Restructuring Agreement (“**Non-Core Subsidiaries**”) transferred to Sino Gather Limited (“**Sino Gather**”) by the Company on or about 23 March 2010 pursuant to the deed entered into between the Company and Sino Gather dated 23 March 2010 for disposal of the entire issued share capital of the Non-Core Subsidiaries, and any assets transferred by the Company to Sino Gather under the Schemes with effect from the 1 November 2011 (“**Completion Date**”) which will be dealt with by the Scheme Administrators. Details of the Non-Core Subsidiaries are set out in the announcement of the Company dated 23 March 2010.

d) Bonus Issue

After Completion and on 2 November 2011, the Company effected the bonus issue to the qualifying shareholders whose names appear on the original register of members of the Company (“**Qualifying Shareholders**”) on 20 October 2011 (“**Bonus Issue**”). The terms of the Bonus Issue was made by way of bonus on the basis of 13 bonus shares for every 1,000 New Shares held on 20 October 2011 by the Qualifying Shareholders.

3. Application of new and revised Hong Kong Financial Reporting Standards (“HKFRSs”)

In the current year, the Group has applied the following new and revised Hong Kong Financial Reporting Standards (“**HKFRS**”) issued by the Hong Kong Institute of Certified Public Accountants (“**HKICPA**”).

Amendments to HKFRSs HKAS 24 (as revised in 2009)	Improvements to HKFRSs issued in 2010
Amendments to HKAS 32	Related Party Disclosures
Amendments to HK(IFRIC) – Int 14	Classification of Rights Issues
HK (IFRIC) – Int 19	Prepayments of a Minimum Funding Requirement
	Extinguishing Financial Liabilities with Equity Instruments

Except as described below, the application of the new and revised HKFRSs in the current year has had no material impact on the Group’s financial performance and positions for the current and prior years and/or on the disclosures set out in the consolidated financial statements.

Amendments to HKAS 1 Presentation of Financial Statements (as part of Improvements to HKFRSs issued in 2010)

The amendments to HKAS 1 clarify that an entity may choose to disclose an analysis of other comprehensive income by item in the statement of changes in equity or in the notes to the financial statements. In the current year, for each component of equity, the Group has chosen to present such an analysis in the statement of changes in equity. The revised standard has no impact on the consolidated financial statement of the Group.

HKAS 24 Related Party Disclosures (as revised in 2009)

HKAS 24 (as revised in 2009) has been revised on the following two aspects: (a) HKAS 24 (as revised in 2009) has changed the definition of a related party and (b) HKAS 24 (as revised in 2009) introduces a partial exemption from the disclosure requirements for government-related entities.

The Company and its subsidiaries are not government-related entities. The application of the revised definition of related party set out in HKAS 24 (as revised in 2009) in the current year has no material impact on the Group's consolidated financial statement.

HK(IFRIC) – Int 19 Extinguishing Financial Liabilities with Equity Instruments

The Interpretation gives guidance on the accounting for the extinguishment of financial liabilities with equity instruments. Specifically, under HK(IFRIC) – Int 19, equity instruments issued in order to extinguish financial liabilities are recognised initially at their fair values, with any difference between the carrying amount of the financial liability extinguished and the consideration paid being recognised in profit or loss.

In the current year, the Company has issued several equity instruments to extinguish its financial liabilities with its Scheme Creditors and Investors, details are set out in the Note 8 to the consolidated financial statement of the Company's circular dated 12 September 2011 and the announcement of the Company dated 3 November 2011.

HK(IFRIC) – Int 19 requires retrospective application. However, the application of HK(IFRIC) – Int 19 has had no impact on the Group's financial performance and positions for the prior years because the Group had not previously entered into any transactions of this nature.

Save as described above, the application of the new and revised HKFRSs has had no material effect on the consolidated financial statements of the Group for the current or prior accounting periods.

The Group has not early applied the following new and revised standards, amendments and interpretation that have been issued but are not yet effective:

Amendments to HKFRS 7	Disclosures – Transfers of Financial Assets ¹ Disclosures – Offsetting Financial Assets and Financial Liabilities ² Mandatory Effective Date of HKFRS 9 and Transition Disclosures ³
HKFRS 9	Financial Instruments ³
HKFRS 10	Consolidated Financial Statements ²
HKFRS 11	Joint Arrangements ²
HKFRS 12	Disclosure of Interests in Other Entities ²
HKFRS 13	Fair Value Measurement ²
Amendments to HKAS 1	Presentation of Items of Other Comprehensive Income ⁵
Amendments to HKAS 12	Deferred Tax: Recovery of Underlying Assets ⁴
HKAS 19 (Revised in 2011)	Employee Benefits ²
HKAS 27 (Revised in 2011)	Separate Financial Statements ²
HKAS 28 (Revised in 2011)	Investments in Associates and Joint Ventures ²
Amendments to HKAS 32	Presentation – Offsetting Financial Assets and Financial Liabilities ⁶
HK(IFRIC) – Int 20	Stripping Costs in the Production Phase of a Surface Mine ²

¹ Effective for annual periods beginning on or after 1 July 2011

² Effective for annual periods beginning on or after 1 January 2013

³ Effective for annual periods beginning on or after 1 January 2015

⁴ Effective for annual periods beginning on or after 1 January 2012

⁵ Effective for annual periods beginning on or after 1 July 2012

⁶ Effective for annual periods beginning on or after 1 January 2014

Amendments to HKFRS 7 Disclosures – Transfers of Financial Assets

The amendments to HKFRS 7 increase the disclosure requirements for transactions involving transfers of financial assets. These amendments are intended to provide greater transparency around risk exposures when a financial asset is transferred but the transferor retains some level of continuing exposure in the asset. The amendments also require disclosures where transfers of financial assets are not evenly distributed throughout the period.

The directors anticipate that the application of the amendments to HKFRS 7 will affect the Group's disclosures regarding transfers of financial assets in the future.

Amendments to HKAS 32 Offsetting Financial Assets and Financial Liabilities and amendments to HKFRS 7 Disclosures – Offsetting 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 to HKAS 32 clarify existing application issues relating to the offsetting requirements.

The amendments to HKFRS 7 require entities to disclose information about rights of offset and related arrangements (such as collateral posting requirements) for financial instruments under an enforceable master netting agreement or similar arrangement.

The amended offsetting disclosures are required for annual periods beginning on or after 1 January 2013 and interim periods within those annual periods. The disclosures should also be provided re-trospectively for all comparative periods. However, the amendments to HKAS 32 are not effective until annual periods beginning on or after 1 January 2014, with retrospective application required.

HKFRS 9 Financial Instruments

HKFRS 9 issued in 2009 introduces new requirements for the classification and measurement of financial assets. HKFRS 9 amended in 2010 includes the requirements for the classification and measurement of financial liabilities and for derecognition.

Key requirements of HKFRS 9 are described as follows:

- HKFRS 9 requires all recognised financial assets that are within the scope of HKAS 39 *Financial Instruments: Recognition and Measurement* to be 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. All other debt investments and equity investments are measured at their fair values at the end of subsequent reporting 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.

- The most significant effect of HKFRS 9 regarding the classification and measurement of financial liabilities relates to the presentation of changes in the fair value of a financial liability (designated as at fair value through profit or loss) attributable to changes in the credit risk of that liability. Specifically, under HKFRS 9, for financial liabilities that are designated as at fair value through profit or loss, 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 attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss. Previously, under HKAS 39, the entire amount of the change in the fair value of the financial liability designated as at fair value through profit or loss was presented in profit or loss.

The directors anticipate that the adoption of HKFRS 9 in the future may have significant impact on amounts reported in respect of the Group's financial assets and financial liabilities. Regarding the Group's financial assets, it is not practicable to provide a reasonable estimate of that effect until a detailed review has been completed.

New and revised Standards on consolidation, joint arrangements, associates and disclosures

In June 2011, a package of five standards on consolidation, joint arrangements, associates and disclosures was issued, including HKFRS 10, HKFRS 11, HKFRS 12, HKAS 27 (as revised in 2011) and HKAS 28 (as revised in 2011).

Key requirements of these five standards are described below.

HKFRS 10 replaces the parts of HKAS 27 *Consolidated and Separate Financial Statements* that deal with consolidated financial statements and HK (SIC)-Int 12 *Consolidation – Special Purpose Entities*. HKFRS 10 includes a new definition of control that contains three elements: (a) power over an investee, (b) exposure, or rights, to variable returns from its involvement with the investee, and (c) the ability to use its power over the investee to affect the amount of the investor's returns. Extensive guidance has been added in HKFRS 10 to deal with complex scenarios.

HKFRS 11 replaces HKAS 31 *Interests in Joint Ventures* and HK (SIC)-Int 13 *Jointly Controlled Entities-Non-Monetary Contributions by Venturers*. HKFRS 11 deals with how a joint arrangement of which two or more parties have joint control should be classified. Under HKFRS 11, joint arrangements are classified as joint operations or joint ventures, depending on the rights and obligations of the parties to the arrangements. In contrast, under HKAS 31, there are three types of joint arrangements: jointly controlled entities, jointly controlled assets and jointly controlled operations.

In addition, joint ventures under HKFRS 11 are required to be accounted for using the equity method of accounting, whereas jointly controlled entities under HKAS 31 can be accounted for using the equity method of accounting or proportionate accounting.

HKFRS 12 is a disclosure standard and is applicable to entities that have interests in subsidiaries, joint arrangements, associates and/or unconsolidated structured entities. In general, the disclosure requirements in HKFRS 12 are more extensive than those in the current standards.

These five standards are effective for annual periods beginning on or after 1 January 2013. Earlier application is permitted provided that all of these five standards are applied early at the same time.

The directors anticipate that the application of these five standards would not have significant impact on amounts reported in the consolidated financial statements.

HKFRS 13 Fair Value Measurement

HKFRS 13 establishes a single source of guidance for fair value measurements and disclosures about fair value measurements. The Standard defines fair value, establishes a framework for measuring fair value, and requires disclosures about fair value measurements. The scope of HKFRS 13 is broad; it applies to both financial instrument items and non-financial instrument items for which other HKFRSs require or permit fair value measurements and disclosures about fair value measurements, except in specified circumstances. In general, the disclosure requirements in HKFRS 13 are more extensive than those in the current standards. For example, quantitative and qualitative disclosures based on the three-level fair value hierarchy currently required for financial instruments only under HKFRS 7 *Financial Instruments: Disclosures* will be extended by HKFRS 13 to cover all assets and liabilities within its scope.

HKFRS 13 is effective for annual periods beginning on or after 1 January 2013, with earlier application permitted.

The directors anticipate that HKFRS 13 will be adopted in the Group's consolidated financial statements for the annual period beginning 1 January 2013 and that the application of the new Standard may affect the amounts reported in the consolidated financial statements and result in more extensive disclosures in the consolidated financial statements.

Amendments to HKAS 1 Presentation of Items of Other Comprehensive Income

The amendments to HKAS 1 retain the option to present profit or loss and other comprehensive income in either a single statement or in two separate but consecutive statements. However, the amendments to HKAS 1 require additional disclosures to be made in the other comprehensive income section such that items of other comprehensive income are grouped into two categories: (a) items that will not be reclassified subsequently to profit or loss; and (b) items that may be reclassified subsequently to profit or loss when specific conditions are met. Income tax on items of other comprehensive income is required to be allocated on the same basis.

The amendments to HKAS 1 are effective for annual periods beginning on or after 1 July 2012. The presentation of items of other comprehensive income will be modified accordingly when the amendments are applied in the future accounting periods.

4. Significant accounting policies

The consolidated financial statements have been prepared in accordance with HKFRSs 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.

The consolidated financial statement have been prepared on the historical cost basis, as explained in accounting policies set out below. Historical cost is generally based on the fair value of the consideration given in exchange for goods.

The principal accounting policies are set out below.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (its subsidiaries). Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

The results of subsidiaries acquired or disposed of or deconsolidated during the year are included in the consolidated statement of comprehensive income from the effective date of acquisition and up to the effective date of disposal or deconsolidation, as appropriate.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies in line with those used by other members of the Group.

All intra-group transactions, balances, income and expenses are eliminated in full on consolidation.

Revenue recognition

Revenue is measured at the fair value of consideration received or receivable and represents amounts receivable for goods sold in the normal course of business, net of discounts and sales related taxes.

Revenue from sales 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 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 the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

Property, plant and equipment

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

Depreciation is recognised so as to write-off the cost of items of property, plant and equipment less their residual values over their estimated useful lives, using the straightline method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

An item of property, plant 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 disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the assets and is recognised in profit or loss.

Impairment losses on tangible assets

At the end of the reporting period, the Group reviews the carrying amounts of its tangible assets 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. Where 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.

Recoverable amount is the higher of fair value less costs to sell and value-in-use. In assessing value-in-use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or a cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or a cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset 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 a cash-generating unit) in prior years. A reversal of an impairment loss is recognised as income immediately, unless the relevant asset is carried at a revalued amount under another accounting standard, in which case the reversal of the impairment loss is treated as a revaluation increase under that other accounting standard.

Leasehold land and building

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 statement 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.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined 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.

Financial instruments

Financial assets and financial liabilities are recognised in the consolidated statement of financial position 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 are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition.

Financial assets

The Group’s financial assets are classified as 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 financial asset 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 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 asset, or, where appropriate, a shorter period to the net carrying amount on initial recognition.

Interest income is recognised on an effective interest basis for debt instrument.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Subsequent to initial recognition, loans and receivables (including trade and other receivables, escrow money and bank balances and cash) are carried at amortised cost using the effective interest method, less any identified impairment losses (see accounting policy on impairment on financial assets below).

Impairment of financial assets

Financial assets are assessed for indicators of impairment at the end of the reporting period. Financial assets are considered to be impaired where 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 financial assets have been affected.

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

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

For certain categories of financial asset, 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 120 days and 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 the 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.

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

For financial assets measured at amortised cost, if in a subsequent period, the amount of impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment losses was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the asset 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

Financial liabilities 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 the Group after deducting all of its liabilities. Equity instruments issued by the Group are recognised at the proceeds received, net of direct issue costs.

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 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.

Derivative financial instruments

Derivatives are initially recognised at fair value at the date a derivative contract is entered into and are subsequently remeasured to their fair value at the end of reporting period. The resulting gain or loss is recognised in profit or loss immediately.

Derivatives embedded in other financial instruments or other host contracts are treated as separate de-derivatives when their risks and characteristics are not closely related to those of the host contracts and the host contracts are not measured at fair value with changes in fair value recognised in profit or loss.

Other financial liabilities

Other financial liabilities including (trade and other payables, bank borrowings, other borrowings, provision for bank loans guarantee for a deconsolidated subsidiary, loan from an investor, amount due to an investor, other financial liabilities and liabilities portion of Convertible Loan Notes) are subsequently measured at amortised cost, using the effective interest method.

Convertible Loan Notes

Convertible Loan Notes issued by the Group that contain both the liability and conversion option components are classified separately into respective items on initial recognition in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument. Conversion option that will be settled by the exchange of a fixed amount of cash or another financial asset for a fixed number of the Company's own equity instruments is classified as an equity instrument.

On initial recognition, the fair value of the liability component is determined using the prevailing market interest of similar non-convertible debts. The difference between the gross proceeds of the issue of the Convertible Loan Notes and the fair value assigned to the liability component, representing the conversion option for the holder to convert the loan notes into equity, is included in convertible loan notes equity reserve.

In subsequent periods, the liability component of the Convertible Loan Notes is carried at amortised cost using the effective interest method. The equity component, representing the option to convert the liability component into ordinary shares of the Company, will remain in convertible loan notes equity reserve until the embedded option is exercised (in which case the balance stated in convertible loan notes equity reserve will be transferred to share premium). Where the option remains unexercised at the expiry date, the balance stated in convertible loan notes equity reserve will be released to the accumulated losses. No gain or loss is recognised in profit or loss upon conversion or expiration of the option.

Transaction costs that relate to the issue of the Convertible Loan Notes are allocated to the liability and equity components in proportion to the allocation of the gross proceeds. Transaction costs relating to the equity component are charged directly to equity. Transaction costs relating to the liability component are included in the carrying amount of the liability portion and amortised over the period of the Convertible Loan Notes using the effective interest method.

Financial guarantee contracts

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument.

A financial guarantee contract issued by the Group and not designated as at fair value through profit or loss is recognised initially at its fair value less transaction costs that are directly attributable to the issue of the financial guarantee contract. Subsequent to initial recognition, the Group measures the financial guarantee contract at the higher of: (i) the amount of obligation under the contract, as determined in accordance with HKAS 37 Provisions, Contingent Liabilities and Contingent Assets, and (ii) the amount initially recognised less, when appropriate, cumulative amortization recognised in accordance with the revenue recognition policy.

Derecognition

The Group 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 Group derecognises financial liability when, and only when, the Group's obligations are discharged, cancelled or expired. 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 cash equivalents

Bank and cash equivalents include cash at bank, cash in hand, time deposits with original maturities of three months or less.

Convertible preference shares

Convertible preference shares issued by the Company that contain both financial liability and equity components are classified separately into respective liability and equity components on initial recognition. On initial recognition, the fair value of the liability component is determined using the prevailing market interest of similar non-convertible debts. The difference between the proceeds of the issue of the convertible preference shares and the fair value assigned to the liability component, representing the embedded call option for the holder to convert the notes into equity.

In subsequent periods, the liability component of the convertible preference shares is carried at amortised cost using the effective interest method. The equity component, represented by the option to convert the liability component into ordinary shares of the Company, will remain in reserves until the embedded option is exercised (in which case the balance stated in reserves will be transferred to share premium).

Transaction costs that relate to the issue of the convertible preference shares are allocated to the liability and equity components in proportion to the allocation of the gross proceeds. Transaction costs relating to the equity component are charged directly to equity. Transaction costs relating to the liability component are included in the carrying amount of the liability portion and amortised over the period of the convertible preference shares using the effective interest method.

Taxation

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

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

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax base 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 difference to the extent that it is probable that taxable profit will be available against which those deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from the initial recognition (other than in a business combination) of 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 arising on investments in subsidiaries, 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 the 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 is realised, based on tax rate (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.

Current and deferred tax is recognised in profit or loss, except when it relates to items that are recognised in other comprehensive income 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.

Lease

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

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.

Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recorded in the respective functional currency (i.e. the currency of the primary economic environment in which the entity operates) at the rates of exchanges prevailing on 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 on 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 arising on the settlement of monetary items, and on the retranslation of monetary items, are recognised in profit or loss in the period in which they arise, except for exchange differences arising on a monetary item that forms part of the Company's net investment in a foreign operation, in which case, such exchange differences are recognised in other comprehensive income and accumulated in equity and will be reclassified from equity to profit or loss on disposal of the foreign operation. Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in profit or loss for the period except for exchange differences arising on the retranslation of non-monetary items in respect of which gains and losses are recognised directly in other comprehensive income, in which cases, the exchange differences are also recognised directly in other comprehensive income.

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into the presentation currency of the Group (i.e. RMB) at the rate of exchange prevailing at the end of the reporting period. Income and expenses items are translated at the average exchange rates for the year, unless exchange rates fluctuate significantly during the period, in which case, the exchange rates prevailing at the dates of transactions are used. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity under the heading of translation reserve.

On disposal of a foreign operation, the cumulative exchange differences recognised in the foreign exchange reserve relating to that operation up to the date of disposal are transferred to the consolidated statement of comprehensive income as part of the profit or loss on disposal.

Borrowing costs

All borrowing costs are recognised in the profit or loss in the period in which they are incurred.

Provisions

Provisions are recognised when the Group has a present obligation as a result of past event, and 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. Provisions are measured at 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. Where 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).

Contingent liability

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 in the notes to the consolidated financial statements. When a change in the probability of an outflow occurs so that outflow is probable, it will then be recognised as a provision.

Share-based payment transactions

The fair value of services received determined by reference to the fair value of share options granted at the grant date is recognised as an expenses in full at the grant date when the share options granted vest immediately, 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 recognised in profit or loss such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to share options reserve.

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

Retirement benefit costs

Payments to the Mandatory Provident Fund Scheme and state-managed retirement benefits schemes are recognised as an expense when employees have rendered service entitling them to the contributions.

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

- (a) the party is a person or a close member of that person's family and 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; or
- (b) the party is an entity where any of the following conditions applies:
 - (i) the entity and the Group are members of the same group;
 - (ii) one entity is an associate or joint venture of the other entity (or of a parent, subsidiary or fellow subsidiary of the other entity);
 - (iii) the entity and the Group 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 entity;
 - (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;
 - (vi) the entity is controlled or jointly controlled by a person identified in (a); and
 - (vii) a person identified in (a)(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).

5. Critical accounting judgements and key sources of estimation uncertainty

In the application of the Group's accounting policies, which are described in Note 4, the directors of the Company are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Key sources of estimation uncertainty

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

(i) Prepaid lease payments and ownership of buildings

Despite the Group has paid the first installment of RMB12,400,000 for acquiring the land use right from Fen Yang Wen Feng Street Nanguan Villagers' Committee (汾陽市文峰街道南關村民委員會 “**Villagers' Committee**”) as detailed in Notes 15 and 16 to the consolidated financial statements, the relevant government authorities have not yet issued the land and building ownership certificates to the Group.

Although the Group has not yet obtained the relevant legal titles of land and building, the directors of the Company determine to recognise these land and buildings on the grounds that i) Villagers' Committee confirmed that the application for changing the collectively owned land to industrial granted land is in process and the Villagers' Committee allowed the Group to occupy the subject land parcel gratuitously for its normal business operations; ii) pursuant to a legal opinion issued by 山西汾州律師事務所 dated 30 August 2011, provided that the Group comply with the requirements of State and Local Government to submit the town planning master plan and all necessary information, there is no legal impediments in completing necessary applications and obtaining building ownership certificate.

The directors of the Company considered that the legal titles would be obtained in future and the Group is in substance controlling the usage of these land and buildings. The absence of formal titles of these land use rights does not impair the value of the relevant buildings to the Group.

(ii) Valuations of share options granted

The fair value of share options granted was calculated using the Binomial Option Pricing Model which requires the input of highly subjective assumptions, including the volatility of the share price. Because changes in subjective input assumptions can materially affect the fair value estimate, in the opinion of the directors of the Company, the existing model will not always necessarily provide a reliable single measure of the fair value of the share options. Details of the inputs are set out in Note 32 to the consolidated financial statements.

(iii) Valuation of Convertible Loan Notes

The management uses their judgement in selecting an appropriate valuation technique for the Group's Convertible Loan Notes at initial recognition which are not quoted in the active market. Valuation techniques commonly used by market practitioners are applied.

The fair value of Convertible Loan Notes at initial recognition is estimated based on actual transactions of the financial instruments in the market or transactions of similar financial instruments which generally represent the best estimate of the market value. The fair value of convertible notes at initial recognition varies with different variable and certain subjective assumptions. Any changes in these variables so adopted may materially affect the estimation of the fair value of Convertible Loan Notes. Details of the fair value of Convertible Loan Notes at initial recognition are set out in Note 29 to the consolidated financial statements.

(iv) Estimated useful lives of property, plant and equipment

Property, plant and equipment are depreciated on a straight-line basis over the estimated useful lives of the assets. The management of the Group reviews the estimated useful lives of the assets regularly in order to determine the amount of depreciation to be recorded during any reporting period. The useful lives are based on the Group's historical experience with similar assets. The depreciation for future periods is adjusted if there are material changes from previous estimates.

(v) Net realisable value of inventories

Net realisable value of inventories is the estimated selling prices in the ordinary course of business less estimated selling expenses. These estimates are based on the current market condition and the historical experience of selling products of similar nature. It could change significantly as a result of changes in economic conditions in places where the Group operates and changes in customer taste and competitor actions in response to changes in market conditions. Management reassesses these estimates at the end of the reporting period.

The management of the Group reviews an aging analysis at the end of each reporting period, and makes allowance for obsolete and slowing-moving inventory items identified that are no longer suitable for sales.

(vi) *Impairment loss recognised in respect of trade receivables*

The management of the Group performs ongoing credit evaluations of its customers and adjusts credit limits based on payment history and the customers' current credit-worthiness, as determined by the review of their current credit information. The management of the Group continuously monitors collections and payments from its customers and maintains a provision for estimated credit losses have historically been within the Group's expectations and the Group will continue to monitor the collections from customers and maintain an appropriate level of estimated credit losses.

(vii) *Impairment loss recognised in respect of property, plant and equipment*

Property, plant and equipment are reviewed for impairment when events or changes in circumstances indicate that the carrying amount of the assets exceeds its recoverable amount. The recoverable amount is determined with reference to the fair value of the property, plant and equipment less costs to sell. An impairment loss is measured as the difference between the asset's carrying amount and the recoverable amount. Where the recoverable amount is less than expected, a material impairment loss may arise. No impairment has been recognised for the property, plant and equipment during the year ended 31 December 2011 (2010: Nil).

(viii) *Gain on restructuring*

Due to scope limitation as described in the 2010 Consolidated Financial Statements in respect of limitation of scope affecting provision for bank borrowings guarantee for a deconsolidated subsidiary, the accuracy of the total liabilities of the Company released or discharged included in the calculation of the gain on restructuring of approximately RMB161,733,000 may not accurately recorded in the consolidated statement of comprehensive income for the year ended 31 December 2011.

6. Revenue and segment information

Revenue, which is also the Group's turnover, represents the net amounts received and receivable for goods sold during the year.

Information reported to the executive directors of the Company, being the chief operating decision maker, for the purposes of resource allocation and assessment of segment performance focuses on types of goods delivered or provided.

The chief operating decision maker assesses the performance of the Group's manufacture and sale of tinsplate cans packaging business on both geographic and product perspectives. Geographically, chief operating decision maker considers the Group's business is primarily operated in the PRC and the Group's revenue from external customers is derived solely from the manufacture and sale of tinsplate cans packaging in the PRC. All of the Group's business activities are included in a single reportable segment in accordance with HKFRS 8 "Operating segments". As such, no segment information is presented.

Revenue from customers of the corresponding years contributing over 10% of the total revenue of the Group is as follows:

Customer	Revenue generated from	2011 <i>RMB'000</i>	2010 <i>RMB'000</i>
A	Sale of tinsplate cans	20,479	12,928
B	Sale of tinsplate cans	16,819	13,663
C	Sale of tinsplate cans	16,589	N/A ¹
D	Sale of tinsplate cans	16,508	14,323
E	Sale of tinsplate cans	15,981	N/A ¹
F	Sale of tinsplate cans	15,897	N/A ¹

¹ The corresponding revenue did not contribute over 10% of the total revenue of the Group in the respective year.

7. Other revenue

	2011 <i>RMB'000</i>	2010 <i>RMB'000</i>
Interest income on bank deposits	6	–
Interest income on time deposit	50	–
Net foreign exchange gain	–	7,415
Sundry income	–	194
Gain on disposal of property, plant and equipment	–	11
	56	7,620
	56	7,620

8. Gain on restructuring

As part of the restructuring as detail in Note 2 to the consolidated financial statement, all the claims by the Scheme Creditors against the Company were discharged and waived by way of the Schemes under Section 166 of the Hong Kong Companies Ordinance (Cap 32) and Section 86 of the Companies Law of Cayman Islands. The Cayman Scheme was sanctioned by the Cayman Court on 11 October 2011 whereas the Hong Kong Scheme was sanctioned by the HK Court on 25 October 2011.

Pursuant to terms of the Schemes as included in the Restructuring Agreement, on the Completion Date, the Scheme indebtedness, indebtedness and liabilities (actual and contingent) of the Company was compromised, discharged and/or settled. For the details of the Schemes, please refer to Note 2 to the consolidated financial statement. The excess of the amount of liabilities over the amount of assets transferred to the Schemes was recognised as gain on restructuring in the profit or loss for the year ended 31 December 2011.

	2011 <i>RMB'000</i>
Liabilities of the Company released or discharged:	
Trade and other payables	2,420
Bank borrowings	64,144
Other borrowings	50,643
Provision for bank loans guarantee for a deconsolidated subsidiary	29,000
Other financial liabilities	68,533
	<hr/>
Total liabilities of the Company released or discharged (<i>Note a</i>)	214,740
Satisfied by:	
Cash consideration (<i>Note b</i>)	(51,272)
Fair value of Creditors Options (<i>Note c</i>)	(1,735)
	<hr/>
	(53,007)
	<hr/>
Gain on restructuring	161,733
	<hr/> <hr/>

Net cash inflow from Restructuring is set out below:

	2011 <i>RMB'000</i>
Inflow from Restructuring:	
Subscription of New Shares by Investors (<i>Note 31(f)</i>)	22,544
Subscription of Convertible Preference Shares by Investors (<i>Note 31(g)</i>)	50,971
Issuance of the Convertible Loan Notes to the Investors (<i>Note 29</i>)	<u>14,876</u>
	88,391
<i>Less: Outflow from Restructuring</i>	
Cash Consideration for Scheme Creditors (<i>Note b</i>)	(51,272)
Set-off against the loan from an investor (<i>Note 26</i>)	(14,175)
Set-off against the amount due to an investor (<i>Note 27</i>)	<u>(487)</u>
Cash inflow to the Group from restructuring, net	<u><u>22,457</u></u>

Notes:

- a) The amount represents the aggregate Scheme indebtedness, indebtedness and liabilities (actual and contingent) of the Company compromised, discharged and/or settled at the Completion Date.
- b) It represents the cash consideration of HKD62,000,000 (equivalent to RMB51,272,000) received by the Scheme Creditors.
- c) It represents the fair value of 56,000,000 Creditors Options to the Scheme Administrators to hold for the benefits of the Scheme Creditors pursuant to which, the Scheme Creditors were entitled to subscribe for 56,000,000 New Shares of the Company with an exercise price of HKD0.15 per New Shares. For details, please refer to Note 32(b) to the consolidated financial statement.

9. Finance costs

	2011 RMB'000	2010 RMB'000
Interests on:		
Overdue bank borrowings (<i>Note a</i>)	2,998	2,322
Overdue other borrowings (<i>Note a</i>)	2,017	2,396
Overdue other financial liabilities (<i>Note a</i>)	958	740
	<u>5,973</u>	<u>5,458</u>
Effective interest expense on		
Convertible Loan Notes	208	–
Bank charges	5	2
	<u>6,186</u>	<u>5,460</u>

Note:

- a) Upon the sanction of the Schemes, the finance costs of bank borrowings, other borrowings and other financial liabilities incurred for the year have been discharged. The discharged amount formed part of the gain on restructuring for the year ended 31 December 2011.

10. Income tax expense

	2011 RMB'000	2010 RMB'000
Current tax:		
– PRC Enterprises Income Tax (“EIT”)	4,571	4,188
Deferred tax (<i>Note 30</i>):		
– Mainland China withholding tax (<i>Note d</i>)	1,375	1,213
	<u>5,946</u>	<u>5,401</u>

Other than the deferred tax provided for as above, the Group did not have any significant unprovided deferred tax as at 31 December 2011.

Notes:

- (a) Hong Kong Profits Tax is calculated at 16.5% of the estimated assessable profit for both years. No Hong Kong profits tax has been provided for as the Group did not generate any assessable profits in Hong Kong for both years. No deferred tax asset has been recognised due to the unpredictability of future profit streams. The losses may be carried forward indefinitely.
- (b) At 31 December 2011, the Group has unused tax losses of approximately HKD4,165,000 (2010: HKD4,165,000) available for offset against future profits.
- (c) Under the Law of the PRC on EIT (the “EIT Law”) and Implementation Regulation of the EIT Law, the tax rate of the PRC subsidiary is 25% from 1 January 2008 onwards.
- (d) Pursuant to the PRC EIT Law which became effective on 1 January 2008, a 10% withholding tax is levied on dividends declared to foreign investors from the foreign investment enterprises established in the PRC effective from 1 January 2008. On 22 February 2008, Caishui (2008) No. 1 was promulgated by the tax authorities to specify that dividends declared and remitted out of the PRC from the retained profits as at 31 December 2007 are exempted from withholding tax.

The income tax expense for the year can be reconciled to the profit before tax per the consolidated statement of comprehensive income, based on the income tax rate of most of the Group's profit or loss under assessment, as follows:

	2011 RMB'000	2010 RMB'000
Profit before tax	<u>163,464</u>	<u>14,648</u>
Tax at PRC corporate income tax rate of 25% (2010: 25%)	40,866	3,662
Tax effect of expenses not deductible for tax purpose	2,771	2,109
Tax effect of income not taxable for tax purpose	(54,528)	(1,725)
Effect of withholding tax at 10% on the distributable profits of the subsidiary in Mainland China	1,375	1,213
Effect of different tax rates of subsidiaries in other jurisdictions	<u>15,462</u>	<u>142</u>
Income tax expense for the year	<u>5,946</u>	<u>5,401</u>

11. Profit for the year

Profit for the year has been arrived at after charging:

	2011 RMB'000	2010 RMB'000
Directors' emoluments (<i>Note 12(a)</i>)	368	–
Other staff costs	965	1,602
Contributions to retirement benefits scheme, other than directors	<u>294</u>	<u>372</u>
Total staff costs	<u>1,627</u>	<u>1,974</u>
Auditor's remuneration		
– Audit services	414	428
– Other services	190	–
Cost of inventories recognised as an expense	104,789	92,287
Depreciation of property, plant and equipment	7,294	6,220
Bad debts written-off on other receivables	–	413
Minimum lease payments in respect of operating lease of:		
– Property, plant and machinery	2,050	2,000
– Premises	<u>288</u>	<u>–</u>

12. Directors' emoluments and employees' emoluments

a) Directors' emoluments

The emoluments paid or payable to each of seven (2010: two) directors were as follow:

	Fees <i>RMB'000</i>	Salaries and allowances <i>RMB'000</i>	Contributions to retirement benefits scheme <i>RMB'000</i>	Total <i>RMB'000</i>
2011				
Executive directors				
Mr. Leung Heung Ying, Alvin (<i>Note a</i>)	–	298	2	300
Mr. Wong Tat Wai, Derek (<i>Note a</i>)	–	28	1	29
Mr. Liu Zhi Qiang (<i>Note b</i>)	–	–	–	–
Sub-total	–	326	3	329
Independent non-executive directors				
Dr. Lam Andy Siu Wing (<i>Note a</i>)	13	–	–	13
Mr. Siu Siu Ling, Robert (<i>Note a</i>)	13	–	–	13
Mr. Tam Tak Wah (<i>Note a</i>)	13	–	–	13
Mr. Chong Hoi Fung (<i>Note b</i>)	–	–	–	–
Sub-total	39	–	–	39
Total	39	326	3	368

	Fees <i>RMB'000</i>	Salaries and allowances <i>RMB'000</i>	Contributions to retirement benefits scheme <i>RMB'000</i>	Total <i>RMB'000</i>
2010				
Executive directors				
Mr. Chong Hoi Fung (<i>Note b</i>)	–	–	–	–
Independent non-executive director				
Mr. Liu Zhi Qiang (<i>Note b</i>)	–	–	–	–
Total	–	–	–	–

No director waived or agreed to waive any emoluments paid by the Group during the two years ended 31 December 2011 and 2010.

During the year ended 31 December 2011 and 2010, 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.

Notes:

- a) Appointed on 1 November 2011
- b) Retired on 6 October 2011

b) *Employees' emoluments*

Of the five individuals with the highest emoluments in the Group, two (2010: Nil) were directors of the Company whose emoluments are included in the disclosures above. The emoluments of the remaining three (2010: five) individuals were as follows:

	2011 <i>RMB'000</i>	2010 <i>RMB'000</i>
Salaries, allowances and other benefits in kind	338	367
Contributions to retirement benefits scheme	18	14
	<u>356</u>	<u>381</u>

Their emoluments were within the following bands:

	Number of individuals	
	2011	2010
Nil to RMB1,000,000	<u>3</u>	<u>5</u>

During the two years ended 31 December 2011 and 2010, no emoluments were paid by the Group to the five highest paid individuals as an inducement to join, or upon joining the Group, or as compensation for loss of office.

13. Dividend

No dividend was proposed or paid during the year ended 31 December 2011 nor any dividend has been proposed since the end of the reporting period (2010: Nil).

14. Earnings per share

The calculation of the basic earnings per share attributable to the owners of the Company is based on the consolidated profit for the year attributable to the owners of the Company of approximately RMB157,518,000 (2010: RMB9,247,000) and the weighted average number of ordinary shares of the Company in issue during the year of 121,646,000 (2010: 83,208,000 (restated) (*Note a*)).

Trading in the shares of the Company was suspended since 28 April 2009 and no information of the average market price per share for the year ended 31 December 2010 is available. As the exercise price of the options is higher than the market price for shares immediately before the suspension of trading in the Company's shares, the computation of diluted earnings per share does not assume the exercise of the Company's outstanding share options. The calculation of the diluted earnings per share attributable to owners of the Company for the year ended 31 December 2011 is based on the following data:

Earnings

	2011 <i>RMB '000</i>
Profit for the year attributable to owners of the Company, used in the basic earnings per share calculation	157,518
Effect of dilutive potential ordinary shares:	
– Interest on Convertible Loan Notes (net of income tax)	<u>208</u>
Earnings for the purpose of diluted earnings per share	<u><u>157,726</u></u>

Number of shares

	2011 <i>'000</i>
Weighted average number of ordinary shares for the purpose of the basic earnings per share	121,646
Effect of dilutive potential ordinary shares:	
Options	39,735
Convertible preference shares	520,000
Convertible Loan Notes	<u>150,000</u>
Weighted average number of ordinary shares for the purpose of diluted earnings per share	<u><u>831,381</u></u>

Notes:

- a) The weighted average number of ordinary shares for the year ended 31 December 2010 for the purpose of basic earnings per share has been restated for share consolidation and bonus issue during the year ended 31 December 2011 as detailed in Note 31.

15. Property, plant and equipment

	Buildings <i>RMB'000</i>	Leasehold improvements <i>RMB'000</i>	Plant and machinery <i>RMB'000</i>	Motor vehicles <i>RMB'000</i>	Office equipment <i>RMB'000</i>	Total <i>RMB'000</i>
COST						
At 1 January 2010	43,269	637	35,890	1,057	307	81,160
Additions	–	–	5,385	–	–	5,385
Disposals	–	(110)	–	(596)	(188)	(894)
At 31 December 2010	43,269	527	41,275	461	119	85,651
Additions	–	–	3,026	–	2	3,028
At 31 December 2011	43,269	527	44,301	461	121	88,679
ACCUMULATED DEPRECIATION						
At 1 January 2010	6,085	394	8,601	291	260	15,631
Provided for the year	2,590	14	3,538	66	12	6,220
Disposals	–	(110)	–	(168)	(169)	(447)
At 31 December 2010	8,675	298	12,139	189	103	21,404
Provided for the year	2,590	14	4,636	46	8	7,294
At 31 December 2011	11,265	312	16,775	235	111	28,698
CARRYING VALUES						
At 31 December 2011	32,004	215	27,526	226	10	59,981
At 31 December 2010	34,594	229	29,136	272	16	64,247

The above items of property, plant and equipment are depreciated on a straight-line basis at the following rates per annum:

Buildings	5-10%
Leasehold improvements	5-20%
Plant and machinery	10-20%
Motor vehicles	10-20%
Office equipment	20%

Buildings as at 31 December 2011 of approximately RMB32,004,000 (2010: RMB34,594,000) represented buildings situated in Shanxi, the PRC. The Group is in the process of obtaining the building ownership certificates in respect of the buildings. For details, please refer to Note 16 to the consolidated financial statement.

16. Prepaid lease payments

RMB'000

COST

At 1 January 2010, 31 December 2010 and 2011	12,400
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ACCUMULATED IMPAIRMENT

At 1 January 2010, 31 December 2010 and 2011	12,400
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CARRYING VALUES

At 31 December 2010 and 2011	–
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The cost of RMB12,400,000 represented the first installment paid to Villagers' Committee for acquiring the land use right of a piece of land situated in Fenyang City, Shanxi Province ("**Land**") by a subsidiary of the Company, Zhanpen, in 2007.

Pursuant to the Land Use Compensation Agreement (土地征用補償協議) entered between Zhanpen and Villagers' Committee dated 25 October 2007, the total consideration for the Land would be RMB24,800,000, in which the deposit of RMB12,400,000 shall be settled upon signing the Land Use Compensation Agreement and the balance of RMB12,400,000 shall be settled upon Zhanpen has obtained the ownership certificates from the relevant government authorities.

Pursuant to the letter issued by Villagers' Committee dated 25 August 2011, it is now in the process of changing the usage of land from collectively owned to industrial use and Zhanpen has no unsettled balances with Villagers' Committee. As the approval procedures are complicated, the relevant government authorities have not issued the ownership certificate to Zhanpen yet up to the date of this report. According to the legal opinion issued by 山西汾州律師事務所 dated 23 February 2012, as Zhanpen has not obtained the ownership certificates from the relevant government authorities yet, Zhanpen do not have any outstanding obligation to settle the balance of RMB12,400,000 to Villagers' Committee as at 31 December 2011.

During the year ended 31 December 2008, the Provisional Liquidators considered that it is uncertain about the recoverability of the deposit, impairment of RMB12,400,000 have been recognised accordingly.

17. Inventories

	2011 <i>RMB'000</i>	2010 <i>RMB'000</i>
Raw materials	2,465	2,424
Packing materials	77	51
Finished goods	<u>752</u>	<u>698</u>
	<u><u>3,294</u></u>	<u><u>3,173</u></u>

At 31 December 2011, none of the inventories was stated at net realisable value (2010: Nil).

18. Trade and other receivables

	2011 <i>RMB'000</i>	2010 <i>RMB'000</i>
Trade receivables	62,793	46,857
Other receivables, deposits and prepayments	<u>2,197</u>	<u>1,968</u>
	<u><u>64,990</u></u>	<u><u>48,825</u></u>

The movements in allowance for doubtful debts of other receivables are as follows:

	2011 <i>RMB'000</i>	2010 <i>RMB'000</i>
At 1 January	–	413
Written off as uncollectible during the year	<u>–</u>	<u>(413)</u>
At 31 December	<u><u>–</u></u>	<u><u>–</u></u>

At the end of each reporting period, the Group's trade and other receivables were individually determined to be impaired. The individually impaired receivables are recognised based on the credit history of its customers, such as financial difficulties or default in payments, and current market conditions. Consequently, specific provision for impairment was recognised. The Group does not hold any collateral over these balances.

The Group generally allows an average credit period of 120 days to its customers. The following is an aged analysis of trade receivables presented based on the invoice date at the end of the reporting period:

	2011 <i>RMB'000</i>	2010 <i>RMB'000</i>
0 – 30 days	16,524	10,869
31 – 60 days	16,239	13,185
61 – 90 days	13,215	12,655
91 – 120 days	11,539	10,148
Over 120 days	5,276	–
	<u>62,793</u>	<u>46,857</u>

Aged analysis of trade receivables which are not impaired is as follows:

	2011 <i>RMB'000</i>	2010 <i>RMB'000</i>
Neither past due nor impaired	57,517	46,857
Past due but not impaired	5,276	–
	<u>62,793</u>	<u>46,857</u>

Trade receivables that were neither past due nor impaired related to a wide range of customers for whom there was no recent history of default. The Group does not hold any collateral over these balances.

Trade receivables that were past due but not impaired relate to a number of independent customers that have a good track record with the Group. Based on past experience, management believes that no impairment allowance is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable. The Group does not hold any collateral over these balances.

19. Escrow money

	2011 RMB'000	2010 RMB'000
Escrow money denominated in HKD	—	888

On 28 December 2009, the Provisional Liquidators, on behalf of the Company, and the Escrow Agent entered into an escrow agreement with the Business Giant Limited (“Investor”) (“Escrow Agreement”). The Escrow Agreement granted a 12-month exclusivity to negotiate the restructuring of the Company, certain subsidiaries and associated companies, if any, in the Group. On 24 December 2010, the Provisional Liquidators, on behalf of the Company, the Escrow Agent and the Investor entered into a supplementary agreement to extend the exclusivity period to 24-month up to 27 December 2011.

During the year ended 31 December 2011, the Investors have provided HKD11,000,000 (equivalent to approximately RMB9,097,000) (2010: HKD1,000,000, equivalent to approximately RMB846,000) as an escrow money to the Provisional Liquidators for the cost and expenses of the Company to proceed with the restructuring. The loan from the Investor is unsecured, non-interest bearing and repayable upon the termination of Escrow Agreement. During the year ended 31 December 2011, there is approximately RMB8,389,000 (equivalent to HKD10,543,000) (2010: approximately RMB3,507,000, equivalent to HKD4,021,000) had been used for the restructuring from the escrow money. Upon the completion of restructuring, the remaining balance of the escrow money applied towards the set-off against part of the subscription monies payable by the Investors for the New Shares, Convertible Preference Shares and Convertible Loan Notes subscribed.

20. Bank balances and cash

Bank balances and cash include the following components:

	2011 RMB'000	2010 RMB'000
Cash at banks and on hand (Note a)	1,592	2,649
Short-term time deposit (Note b)	20,285	—
	<u>21,877</u>	<u>2,649</u>

Notes:

- a) Bank balances carry interest at floating rates based on daily bank deposit rate. The bank balances are deposited with creditworthy banks with no recent history of default.
- b) The amounts represented short-term deposits with a maturity of three months or less. The deposits carried interest rate from 2% (2010: Nil) per annum for the year ended 31 December 2011.

Included in bank balances and cash are the following amounts denominated in a currency other than functional currency of the entities:

	2011 <i>'000</i>	2010 <i>'000</i>
United State Dollars (“USD”)	106	–
Hong Kong Dollars (“HKD”)	<u>18,994</u>	<u>2</u>

At 31 December 2011, there was approximately RMB2,777,000 (2010: RMB2,647,000) denominated in RMB and deposited with banks in the PRC. The RMB is not freely convertible into other currencies; however, under PRC’s Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through authorised banks to conduct foreign exchange business.

21. Trade and other payables

	2011 <i>RMB’000</i>	2010 <i>RMB’000</i>
Trade payables	8,561	8,052
Other payables and accrued charges	<u>3,400</u>	<u>5,438</u>
	<u>11,961</u>	<u>13,490</u>

The following is an aged analysis of trade payables presented based on the invoice date at the end of the reporting period:

	2011 <i>RMB’000</i>	2010 <i>RMB’000</i>
0 – 30 days	<u>8,561</u>	<u>8,052</u>

The average credit period on purchases of goods is 30 days. The Group has financial risk management policies in place to ensure that all trade payables would be settled within the credit timeframe.

22. Bank borrowings

	2011 <i>RMB'000</i>	2010 <i>RMB'000</i>
Overdue unsecured bank borrowings	–	54,751
Overdue accrued interests	–	6,395
	<u>–</u>	<u>61,146</u>
	<u>–</u>	<u>61,146</u>

At 31 December 2010, bank borrowings of approximately RMB61,146,000 are denominated in HKD and carry interests at floating rates from 2% to 3.5% over HIBOR per annum.

At 31 December 2010, bank borrowings from DBS Bank (China) Company Limited of approximately RMB19,747,000 and DBS Bank (Hong Kong) Limited of approximately RMB24,765,000 had not been repaid in accordance with the relevant terms and bank borrowings from PT. Bank Mandiri (Persero) TBK, Hong Kong Branch of approximately RMB10,239,000 has been called on demand according to the respective loan agreements.

These bank borrowings together with its accrued interests were admitted, discharged and released by way of Restructuring. The discharged amount formed part of the gain on restructuring for the year ended 31 December 2011. Details of the Restructuring are set out in Notes 2 and 8 to the consolidated financial statement.

23. Other borrowings

	2011 <i>RMB'000</i>	2010 <i>RMB'000</i>
Debts assigned	–	45,433
Accrued interests	–	3,193
	<u>–</u>	<u>48,626</u>
As at 31 December	<u>–</u>	<u>48,626</u>

Pursuant to a debt assignment agreement dated 21 September 2009 entered into between Fu Teng Global Limited (“**Fu Teng**”) and Banyan Capital Management Inc (“**Banyan Capital**”), the amounts due from the Company to Fu Teng of HKD50,220,000 (equivalent to approximately RMB42,249,000) was assigned to Banyan Capital at consideration of HKD2,700,000.

Pursuant to another debt assignment agreement dated 21 September 2009 entered into between Mr. Yang Zongwang (“**Mr. Yang**”) (a former executive director of the Company and the beneficial owner of Fu Teng) and Banyan Capital, the amount due from the Company to Mr. Yang of HKD3,763,100 (equivalent to approximately RMB3,184,000) were assigned to Banyan Capital at consideration of HKD300,000.

Other borrowings are overdue, unsecured and interest bearing at Hong Kong Prime Rate per annum.

These other borrowings together with its accrued interests were admitted, discharged and released by way of Restructuring. The discharged amount formed part of the gain on restructuring for the year ended 31 December 2011. Details of the Restructuring are set out in Notes 2 and 8 to the consolidated financial statement.

24. Provision for bank loans guarantee for a deconsolidated subsidiary

	2011 RMB'000	2010 RMB'000
Provision for bank loans guarantee for Fujian Fuwang Metal Products Co Ltd (福建福旺金屬製品有限公司) ("Fuwang")	—	29,000

Details of the guarantee are set out below:

Bank	Guarantee for	Guaranteed amount RMB'000
Bank of China Fuqing Branch	Fuwang	29,000

On 3 November 2008, the Company has entered into a corporate guarantee agreement with Bank of China Fuqing Branch, in which the Company has agreed to provide a guarantee of RMB29,000,000 in relation of the bank borrowing of Fuwang, a former subsidiary of the Company, for the period from 3 November 2008 to 11 November 2011. Pursuant to a legal opinion issued by Trust Law Firm (廣東卓信律師事務所) dated 4 August 2010, the above corporate guarantee provided by the Company would be released on 11 November 2011.

During the year ended 31 December 2008, although the Provisional Liquidators have not received any notice of repayment for the guarantee, the Company did not have sufficient information to assess the liabilities which will be borne by the Company under the guarantee either. A maximum obligation of RMB29,000,000 has been provided as provision during the year ended 31 December 2008.

In addition, since the books and records of certain subsidiaries available to the Provisional Liquidators were incomplete and the Provisional Liquidators have lost control of certain subsidiaries, the Provisional Liquidators make no representation as to the completeness and accuracy of the above mentioned corporate guarantee for the three years ended 31 December 2008, 2009 and 2010.

During the year ended 31 December 2011, these provision for bank loans guarantee for a deconsolidated subsidiary were discharged and released by way of Restructuring. The discharged amount formed part of the gain on restructuring for the year ended 31 December 2011. Details of the Restructuring are set out in Notes 2 and 8 to the consolidated financial statement.

25. Derivative financial instruments

During the year ended 31 December 2007, the Company entered into two structured five-year interest rate swaps (the “**Swaps**”) as a part of its financial management strategy with a commercial bank (the “**Bank**”). On effective date of respective Swaps, the Company received total upfront payments of approximately HKD78,000,000 from the Bank. The fair value of the Swaps at the end of the reporting period is provided by the counterparty bank. Major terms of the Swaps are set out in below:

Notional amount	Upfront payments	Effective date	Maturity date	Swaps
HKD390,000,000	HKD39,000,000	28 February 2007	28 February 2012	The Company receives: 7.0% semi-annually for first 6 months; thereafter: 7.0%* n/m (Note i) The Company pays: 9.0% semi-annually
USD50,000,000	USD5,000,000	23 April 2007	23 April 2012	The Company receives: 8.0% semi-annually The Company pays: 10.0% semi-annually for first 6 months; thereafter: 10.0% minus 5* (Index of YoY Return – 1.0%) (Note ii) coupon capped at 13.0% and floored at 0%

Notes:

- (i) n: Number of business days in the calculation period that HKD 10-years CMS# minus HKD 2-years CMS[^]≥0%
- m: Total number of business days in the calculation period
- # Mid-market quarterly swap rate expressed as a percentage for a HKD interest rate swap transaction with a term equal to 10 years which appears on the Reuters Screen ISDAFIX5 Page 11:00 a.m. Hong Kong time fixing on each day in the accrual period.
- [^] Mid-market quarterly swap rate expressed as a percentage for a HKD interest rate swap transaction with a term equal to 2 years which appears on the Reuters Screen ISDAFIX5 Page 11:00 a.m. Hong Kong time fixing on each day in the accrual period.
- (ii) Index* of YoY Return: The closing level of the Index five business days prior to the end of the relevant coupon payment period/closing level of the Index five business days prior to the payment date which is two coupon payment periods prior to the relevant coupon payment (or effective date in cash of the second coupon payment period) – 1.
- * Index means the “Deutsche Bank Pan-Asian Forward Rate Bias Index” (the “**Index**”) as published on Bloomberg Page DBFRAS13 <Index>

On 13 May 2009, the Swaps were early terminated by the Bank as a result of the Company not paying the interest payment under the Swaps on the due dates. The Company received a statement of demand dated 15 May 2009 for an early termination amount (the “**Termination Amount**”) of USD10,319,033 (equivalent to approximately RMB70,830,000) and a gain of RMB23,340,000 was recognised upon termination of the Swaps during the year ended 31 December 2009. The Termination Amount is then reclassified as “Other financial liabilities” (Note 28) in the consolidated statement of financial position upon termination of the Swaps. The Provisional Liquidators had negotiated with the Bank on the basis for calculation of the Termination Amount. In August 2010, both parties agreed the revised termination amount (the “**Revised Termination Amount**”) of USD10,069,033 (equivalent to approximately RMB66,250,000). The difference between the Termination Amount and the Revised Termination Amount of USD250,000 (equivalent to approximately RMB1,671,000) was recognised as gain on waived of other financial liabilities during the year ended 31 December 2010.

26. Loan from an Investor

The loan from an Investor is unsecured, non-interest bearing and repayable upon the termination of Escrow Agreement. The balances represent an advances provided by an Investor for the resumption cost of the Group. The amount due to an Investor applied towards the set-off against part of the subscription monies payable by an Investor for the New Shares, Convertible Preference Shares and Convertible Loan Notes under the Restructuring Agreement during the year ended 31 December 2011.

27. Amount due to an Investor

The amount due to an Investor is unsecured, non-interest bearing and repayable on completion of Restructuring Agreement. The balances represent an advances provided by an Investor as the working capital of the Group. The amount due to an Investor applied towards the set-off against part of the subscription monies payable by an Investor for the New Shares, Convertible Preference Shares and Convertible Loan Notes under the Restructuring Agreement during the year ended 31 December 2011.

28. Other financial liabilities

	2011 RMB'000	2010 RMB'000
Revised Termination Amount (Note a)	–	66,250
Accrued interests (Note b)	–	1,325
	<hr/>	<hr/>
	–	67,575
	<hr/> <hr/>	<hr/> <hr/>

Included in other financial liabilities are the following amounts denominated in a currency other than functional currency of the entities:

	2011 '000	2010 '000
USD	—	10,270

Notes:

- a) It represented the Revised Termination Amount demanded by the Bank as a result of the early termination of the Swaps as set out in Note 25 to the consolidated financial statements.
- b) Interest is accrued on the Termination Amount for the period from 13 May 2009 to 3 August 2010 and Revised Termination Amount for the period from 3 August 2010 to 25 October 2011 (date of the HK Court hearing of the petition for the sanction of the Hong Kong Scheme) at a rate per annum equal to the cost to the Bank if it were to fund the relevant amount plus 1% per annum in accordance with the ISDA 2002 Master Agreement dated 14 February 2007. Interest rate of overnight USD London Interbank Offered Rates plus 1% per annum has been used to estimate the accrued interests.
- c) The Revised Termination Amount together with its accrued interests was admitted, discharged and released by way of Restructuring. The discharged amount formed part of the gain on restructuring for the year ended 31 December 2011. Details of the Restructuring are set out in Notes 2 and 8 to the consolidated financial statement.

29. Convertible Loan Notes

On 1 November 2011, the Company issued 2% Convertible Loan Notes with a principal amount of HKD18,000,000 to the Investors upon the Completion of Restructuring. Since the issuance of the Convertible Loan Notes formed part of the Restructuring, transaction costs relating to the issue of the Convertible Loan Notes are recognised in the restructuring cost and expenses for the year ended 31 December 2011.

The Convertible Loan Notes are unsecured and denominated in HKD. Pursuant to a board of directors meeting held on 1 November 2011 and a confirmation from the holders of the Convertible Loan Notes, all the interests and repayment of the principal of the Convertible Loan Notes in future shall be settled in RMB (ie: the functional currency of the Group) and notwithstanding any change in exchange rate between HKD and RMB in future, the exchange rate for conversion of any payment under the Convertible Loan Notes from HKD to RMB has been fixed at 1.21, which is the exchange rate as at 1 November 2011. As a result, although the Convertible Loan Notes are not denominated in the functional currency of the Group, the conversion option will be settled by the exchange of a fixed amount of cash or another financial asset for a fixed number of the Company's own equity instruments.

The Convertible Loan Notes entitle the Investors to convert them into ordinary shares of the Company at any time between the date of issue of the Convertible Loan Notes and before 7 business days of their settlement date on 31 October 2016 at a conversion price of HKD0.12 per Share, subject to adjustment. If the Convertible Loan Notes have not been converted, they will be redeemed on 31 October 2016 at par.

The Convertible Loan Notes contain two components, liability and equity elements. The equity element is presented in equity heading “convertible loan notes equity reserve”. The effective interest rate of the liability component is 17% per annum.

The movement of the liability component of the Convertible Loan Notes during the year is set out below:

	<i>RMB'000</i>
Nominal value of the Convertible Loan Notes (equivalent to HKD18,000,000)	14,876
<i>Less:</i> Equity component at the date of issuance	<u>(7,629)</u>
Liability component at the date of issuance	7,247
Interest charged	208
Interest paid	<u>(50)</u>
Liability component at 31 December 2011	<u><u>7,405</u></u>

30. Deferred tax liabilities

The movements on the major deferred tax liabilities recognised by Group during the year are as follow:

	<i>RMB'000</i>
At 1 January 2010	–
Withholding tax for year 2010	<u>1,213</u>
At 31 December 2010	1,213
Withholding tax for year 2011	<u>1,375</u>
At 31 December 2011	<u><u>2,588</u></u>

31. Share capital

	Par value per share <i>HKD</i>	Number of ordinary shares <i>(Note a)</i>	Number of convertible preference shares <i>(Note b)</i>	Amount <i>HKD'000</i>
<i>Authorised:</i>				
At 1 January 2010 and 31 December 2010	<u>0.10</u>	<u>2,000,000,000</u>	<u>–</u>	<u>200,000</u>
At 31 December 2011 <i>(Note c)</i>	<u><u>0.001</u></u>	<u><u>249,480,000,000</u></u>	<u><u>520,000,000</u></u>	<u><u>250,000</u></u>

	Par value per share HKD	Number of ordinary shares (Note a)	Number of convertible preference shares (Note b)	Amount HKD'000	Equivalent to RMB'000
<i>Issued and fully paid:</i>					
At 1 January 2010 and 31 December 2010	0.1	657,121,081	–	65,712	67,399
Capital Consolidation (Note d)	N/A	(574,980,946)	–	–	–
	0.8	82,140,135	–	65,712	67,399
Capital Reduction (Note e)	N/A	–	–	(65,630)	(67,314)
	0.001	82,140,135	–	82	85
Subscription of New Shares by Investors (Note f)	0.001	230,000,000	–	230	187
Subscription of Convertible Preference Shares by Investors (Note g)	0.001	–	520,000,000	520	425
Bonus Issue (Note h)	0.001	1,067,822	–	1	1
At 31 December 2011	0.001	313,207,957	520,000,000	833	698

Notes:

- a) All the ordinary shares which were issued by the Company rank pari passu with each other in all respects.
- b) All the Convertible Preference Shares which were issued by the Company rank pari passu with each other in all respects. The principal terms of the Convertible Preference Shares on the date of issue include the following:

i) Dividend

The holders of the Convertible Preference Shares of HKD0.001 each shall not be entitled to any dividend or distribution.

ii) Capital

On a return of capital on liquidation, the assets of the Company available for distribution among the members shall be applied in repaying to the holders of the preference shares the nominal amount paid up on the preference shares. The paid-up preference shares shall rank for return of capital on liquidation in priority to all other shares in the capital of the Company for the time being in issue while the non-paid-up preference shares shall rank pari passu with the New Shares for the time being in issue.

iii) Redemption

The preference shares are non-redeemable.

iv) Conversion rights

The Convertible Preference Shares of HKD0.001 each are convertible into New Shares of HKD0.001 each after the date of their issuance, subject to an adjustment, at a conversion price of HKD0.12 per New Shares, subject to adjustment provisions which are standard terms for convertible securities of similar type.

v) Transferability

The Convertible Preference Shares are freely transferable by the holders thereof after the date of issue of the preference shares, subject to the requirement of the Listing Rules.

vi) Voting

The Convertible Preference Shares holders shall not have the right to receive notice of, or to attend and vote at, general meetings of the Company, unless a resolution is to be proposed at a general meeting of the Company for winding up the Company or which if pass would vary or abrogate the rights or privileges of the Convertible Preference Shares.

- c) Following the Capital Consolidation and the Capital Reduction as stated in Notes d and e below, the authorised unissued share capital of the Company of HKD134,287,891.90, comprised 1,342,878,919 shares each with a nominal value of HKD0.10, shall be altered so as to be comprised 134,287,891,900 New Shares of HKD0.001 each. At the extraordinary general meeting of the Company held on 6 October 2011, ordinary resolution was passed approving the authorised share capital of the Company be increased from HKD134,370,032.04, divided into 134,370,032,035 shares of HKD0.001 each to HKD250,000,000 divided into 250,000,000,000 shares of HKD0.001 each (consisted with 249,480,000,000 ordinary shares of HKD0.001 each and 520,000,000 preference shares of HKD0.001 each) by the creation of an additional 115,629,967,965 shares of HKD0.001 each.
- d) At the extraordinary general meeting of the Company held on 6 October 2011, special resolution was passed approving the Capital Consolidation that every eight shares of HKD0.10 each in the issued share capital of the Company will be consolidated into one consolidated share with par value of HKD0.80 each.
- e) At the extraordinary general meeting of the Company held on 6 October 2011, special resolution was passed approving upon the Capital Consolidation becoming effective, the par value of each issued Consolidated Share will be reduced from HKD0.80 to HKD0.001 by cancellation of HKD0.799 of the paid-up capital of each issued Consolidated Share. The credit arising as a result of the Capital Consolidation and the Capital Reduction of approximately RMB67,314,000 (equivalent to approximately HKD65,630,000) has been applied to reduce the accumulated losses of the Company as permitted by Cayman Companies Law.
- f) At the extraordinary general meeting of the Company held on 6 October 2011, ordinary resolution was passed approving the allotment and issue of 230,000,000 New Shares to the Investors at a subscription price of HKD0.12 per subscription share to raise a total of HKD27,600,000 (approximately RMB22,544,000) pursuant to the terms of the Restructuring Agreement. The allotment has been made on 1 November 2011.
- g) On 1 November 2011, the Company issued 520,000,000 Convertible Preference Shares with a par value of HKD0.001 each at a price of HKD0.12 each to raise a total of HKD62,400,000 (approximately RMB50,971,000). The directors of the Company considered that as the Convertible Preference Share is not entitled to any dividend and it is non-redeemable, the Convertible Preference Shares are equity instrument containing equity element only and are presented in equity. During the year ended 31 December 2011, none of the ordinary shares were issued pursuant to the conversion of the Convertible Preference Shares.
- h) At the extraordinary general meeting of the Company held on 6 October 2011, ordinary resolutions approving the Bonus Issue, credited as fully paid at par, to the shareholders of the Company whose names appear on the registers of members of the Company on 20 October 2011 on the basis of 13 Bonus Shares for every 1,000 New Shares of the Company. The allotment has been made on 2 November 2011.

32. Share Option Scheme

a) Incentives Share Option Scheme

Pursuant to the written resolutions passed by all of the shareholders of the Company on 2 June 2003, the Company adopted a share option scheme (the “**Share Option Scheme**”). The purpose of the Share Option Scheme is to enable the Group to grant options to selected participants as incentives or rewards for their contribution to the Group. Under the Share Option Scheme, the directors may, at their absolute discretion, invite any employee (whether full-time or part time, including any executive director), any non-executive director (including independent non-executive director), any supplier of goods or services, any customer, any person or entity that provides research, development or other technological support, any shareholder, any adviser (professional or otherwise) or consultant to any area of business or business development of the Group or its investee companies to take up options to subscribe for shares in the Company representing up to a maximum 10% of the shares in issue as at the date of commencement of listing of shares of the Company on the Stock Exchange and subject to renewal with shareholders’ approval. The number of shares in respect of which options may be granted to any individual in aggregate within any 12-month period is not permitted to exceed 1% of the shares of the Company in issue, without prior approval from the Company’s shareholders. Options granted to substantial shareholders or independent non-executive directors in any one year exceeding the higher of 0.1% of the Company’s shares in issue and with a value in excess of HKD5,000,000 must be approved by the Company’s shareholders.

Options granted must be taken up within 21 days of the date of grant, upon payment of HKD1 per each grant of options. Options may be exercised at any time from the date of acceptance of the share option to such date as determined by the board of directors of the Company but in any event not exceeding 10 years. The exercise price is determined by the directors and will be not less than the higher of the closing price of the Company’s shares on the date of grant, the average closing prices of the shares for the five business days immediately preceding the date of grant and the nominal value of the Company’s shares.

The following table discloses details and movements of the Company's share options held by senior management and employees under the Share Option Scheme during both years:

	Date of grant	2010 Exercise price HKD	2011 Exercise price* HKD	Exercisable period	Outstanding at 1.1.2010	Lapsed during the year ended 31.12.2010	Outstanding at 31.12.2010	Adjusted during the year ended 31.12.2011*	Outstanding at 31.12.2011
Senior management	10 February 2004	0.810	N/A	10 February 2004 to 9 February 2014	3,800,000	(3,800,000)	-	-	-
	2 May 2007	0.912	7.2024	2 May 2007 to 1 May 2017	2,500,000	(1,000,000)	1,500,000	(1,310,063)	189,937
	17 July 2007	1.316	N/A	17 July 2007 to 16 July 2017	5,800,000	(5,800,000)	-	-	-
	30 January 2008	0.632	N/A	30 January 2008 to 29 January 2018	4,000,000	(4,000,000)	-	-	-
Employees	10 February 2004	0.810	6.3968	10 February 2004 to 9 February 2014	7,600,000	(3,800,000)	3,800,000	(3,318,825)	481,175
	25 May 2006	0.800	N/A	25 May 2006 to 24 May 2016	2,280,000	(2,280,000)	-	-	-
	2 January 2007	0.670	N/A	2 January 2007 to 1 January 2017	700,000	(700,000)	-	-	-
	2 May 2007	0.912	7.2024	2 May 2007 to 1 May 2017	8,000,000	(7,000,000)	1,000,000	(873,375)	126,625
	17 July 2007	1.316	N/A	17 July 2007 to 16 July 2017	38,870,000	(38,870,000)	-	-	-
	30 January 2008	0.632	4.9911	30 January 2008 to 29 January 2018	6,000,000	(1,000,000)	5,000,000	(4,366,875)	633,125
					<u>79,550,000</u>	<u>(68,250,000)</u>	<u>11,300,000</u>	<u>(9,869,138)</u>	<u>1,430,862</u>

* As a result of the Restructuring which includes, inter alia, the Capital Consolidation and the Bonus Issue, the number of outstanding share options and the exercise price adjusted (the "Adjustments") on 12 October 2011 and 3 November 2011 in accordance with the terms of the Share Option Scheme and in compliance with the requirements set out in Rule 17.03(13) of the Listing Rules and the supplementary guidance (the "Supplementary Guidance") thereto.

b) Creditors Options

On 1 November 2011, as part of the Company's debt restructuring, the Company granted a total of 56,000,000 Creditors Options to the Scheme Administrators for the benefits of the Scheme Creditors. The Creditors Options are exercisable for a period of one year commencing from the date of grant at an initial exercise price of HKD0.15 per Creditors Options, subject to adjustment.

The fair value of the Creditors Options was approximately RMB1,735,000 (equivalent to approximately HKD2,099,000). The fair value of the Creditors Options have been arrived at on the basis of a valuation carried out on that date by Asia Asset Limited, an independent qualified professional valuers not connected with the Group. The valuation was arrived at using the Binominal Option Pricing Model. The inputs into the model were as follows:

Date of grant	1 November 2011
Maturity date	31 October 2012
Share price at the date of grant	HKD0.1861 (<i>Note i</i>)
Exercise price	HKD0.15
Volatility (%)	36.91 (<i>Note ii</i>)
Risk free rate (%)	0.14
Expected dividend yield	Nil

Notes:

- i) Pursuant to the valuation report issued by Asia Asset Limited, because the shares of the Company had been suspended trading for over 2.5 years due to insolvency issue and was resumed trading at 4 November 2011, no indicative value from the exchange traded share price was available as at the grant date although trading was resumed after the valuation date (with a closing price of HKD1.02 on resumption date of 4 November 2011 and HKD0.28 on 30 December 2011), it is inappropriate to measure the fair value using market price information on hindsight basis. The Scheme Creditors of the Company were only informed of their respective allocation of options by the Scheme Administrators in mid-December, 2011. For a company in distress condition, it is considered reasonable to reflect its share price based on the net asset value of the Company. The share price used in the valuation represented net asset value divided by total number of ordinary shares and preference shares as stated in unaudited proforma consolidated statement of financial position of the Group as at 31 December 2010 in the Circular.
- ii) Volatility is based on the average of the historical volatilities of daily return of such comparable companies engaging in business operations similar to that of the Company.

During the year ended 31 December 2011, no Creditors Options was exercised, forfeited or expired. At 31 December 2011, the Company has 56,000,000 Creditors Options outstanding. The exercise in full of the remaining Creditors Options would result in issue of 56,000,000 additional ordinary shares of the Company, additional share capital of HKD56,000 and additional share premium of HKD8,344,000 (before the issue expenses).

33. Operating lease commitments*The Group as lessee*

	2011 <i>RMB'000</i>	2010 <i>RMB'000</i>
Minimum lease payments paid under operating leases during the period:		
– Premises	288	–
– Property, plant and machinery	<u>2,050</u>	<u>2,000</u>
	<u><u>2,338</u></u>	<u><u>2,000</u></u>

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

	2011 <i>RMB'000</i>	2010 <i>RMB'000</i>
Within one year	2,589	1,166
In the second to the fifth year inclusive	<u>6,626</u>	<u>–</u>
	<u><u>9,215</u></u>	<u><u>1,166</u></u>

Operating lease payments represent rentals payable by the Group for certain of its premises, plant and machinery, and office equipment. Leases are negotiated for an average term of 5 years (2010: 2 years) and no arrangements have been entered into for contingent rental payments.

34. Contingent liabilities

On 8 July 2009, a winding up petition was served on the Company by Deutsche Bank Aktiengesellschaft. On 2 October 2009, an application was made by DBS Bank (Hong Kong) Limited and an order was granted by the HK Court appointing the Provisional Liquidators as provisional liquidators to the Company. Upon the appointment of Provisional Liquidators, no action or proceeding shall be proceeded with or commenced against the Company except by leave of the HK Court, and subject to such terms as the HK Court may impose. During the year ended 31 December 2011, all claims and potential claims against the Company have been compromised under the Schemes and sanctioned by the HK Court and the Cayman Court. For the details of the Schemes, please refer to Note 2 to the consolidated financial statement.

At 31 December 2011, the Group did not have any significant contingent liabilities.

For the year ended 31 December 2010, the Provisional Liquidators make no representation as to the completeness and accuracy of the contingent liabilities.

35. Related party transactions and disclosures

Related party transactions

- a) In addition to the balances with related parties at the end of reporting period which disclosed in the consolidated financial statements, the Group entered into the following significant transactions with related parties during the year ended 31 December 2011.

Name	Nature of transaction	RMB'000
Business Giant Limited	– Issuance of Convertible Loan Notes (<i>Note i</i>)	4,463
(“Business Giant”)	– Issuance of Convertible Preference Shares (<i>Note ii</i>)	15,290
	– Interest paid for Convertible Loan Notes (<i>Note iii</i>)	15

Notes:

- i) Business Giant has subscribed for HKD5,400,000 (equivalent to approximately RMB4,463,000) Convertible Loan Notes of the Company during the year ended 31 December 2011, in which Mr. Leung Heung Ying Alvin, the director of the Company, is the sole director and shareholder.
- ii) Business Giant has subscribed for 156,000,000 Convertible Preference Shares at HKD0.12 per Convertible Preference Shares during the year ended 31 December 2011. The proceed is approximate HKD18,720,000 (equivalent to RMB15,290,000).
- iii) An interest expenses of approximately HKD18,000 (equivalent to RMB15,000) on Convertible Loan Notes has been paid to Business Giant during the year ended 31 December 2011.
- b) *Compensation to key management personnel*

The remuneration of directors and other members of key management during the year were as follows:

	2011 RMB'000	2010 RMB'000
Salaries, allowances and other benefits in kind	544	–
Contributions to retirement benefits scheme	19	–
	<u>563</u>	<u>–</u>

For the year ended 31 December 2010, the Provisional Liquidators considered that the directors of the Company are the only key management personnel of the Group and there was no emoluments paid to all of the directors for the year ended 31 December 2010.

In addition, the Provisional Liquidators make no representation as to the completeness and accuracy of the related party transactions, connected transactions and continuing connected transactions entered into by the Group as defined under HKAS 24 and the Listing Rules for the year ended 31 December 2010.

36. Capital commitments

The Group had the following capital commitments at the end of the reporting period:

	2011 <i>RMB'000</i>	2010 <i>RMB'000</i>
Commitments contracted for but not provided in the consolidated financial statements		
– Property, plant and equipment	4,068	–

The Provisional Liquidators make no representation as to the completeness and accuracy of the capital commitments as at 31 December 2010.

37. Retirement benefits plans

The Group operates a Mandatory Provident Fund Scheme for all qualifying employees in Hong Kong. The assets of the scheme are held separately from those of the Group, in funds under the control of trustees. The Group contributes 5% of the respective employees' monthly salaries (up to a maximum contribution of HKD1,000 (equivalent to approximately RMB827) to the Mandatory Provident Fund Scheme, which contribution is matched by employees.

The employees of the Group's subsidiary in the PRC are members of a state managed retirement benefit scheme operated by the government of the PRC. The subsidiary is required to contribute 20% of payroll costs to the retirement benefit scheme to fund the benefits. The only obligation of the Group with respect to the retirement benefit scheme is to make the specified contributions.

The total cost charged to the consolidated statement of comprehensive income of approximately RMB294,000 (2010: RMB372,000) represents contributions payable to these schemes by the Group in respect of the current accounting period.

38. Investments in subsidiaries

Particulars of the subsidiaries as at 31 December 2011 are as follows:

Name of subsidiary	Place of incorporation or establishment/operation	Paid-up share capital/registered capital	Proportion of nominal value of ordinary issued capital/registered capital held by the Company		Principal activities
			Directly	Indirectly	
Bloxworth Enterprise Limited	British Virgin Islands	USD1,000	100%	–	Investment holding
Shanxi Zhanpen Metal Products Co., Ltd 山西展鹏金属製品有限公司	PRC, wholly owned foreign enterprise	USD8,100,000	–	100%	Manufacture and sale of tinplate cans for the packaging of beverage in the PRC

None of the subsidiaries had issued any debt securities at the end of the year.

39. Capital risk management

The Group manages its capital to ensure that entities in the Group can support the Group's stability and growth and can provide capital for the purpose of strengthening the Group's risk management capability.

The capital structure of the Group consists of net debt, which includes the bank borrowings, other borrowings, loan from investor, other financial liability, Convertible Loan Notes, net of cash and cash equivalents and equity attributable to owners of the Group, comprising issued share capital, reserves and retained earnings.

The directors of the Company review the capital structure on an annual basis. As part of this review, the directors consider the cost of capital and the risks associates with each class of capital. Based on recommendations of the directors, the Group will balance its overall capital structure through the payment of dividends, new share issues and share buy-backs as well as the issue of new debt or the redemption of existing debt.

40. Financial instruments***Categories of financial instruments******(i) Financial assets***

	2011 <i>RMB'000</i>	2010 <i>RMB'000</i>
Loans and receivables (including cash and cash equivalents):		
Trade and other receivables	62,893	47,325
Escrow money	–	888
Bank balance and cash	21,877	2,649
	<u>84,770</u>	<u>50,862</u>

(ii) Financial liabilities

	2011 RMB'000	2010 RMB'000
Financial liabilities at amortised cost:		
Trade and other payables	11,961	13,490
Other financial liabilities:		
Bank borrowings	–	61,146
Other borrowings	–	48,626
Provision for bank loans guarantee for a deconsolidated subsidiary	–	29,000
Loan from an investor	–	5,078
Amount due to an investor	–	265
Other financial liabilities	–	67,575
Liability component of Convertible Loan Notes	7,405	–
	<u>19,366</u>	<u>225,180</u>

41. Financial risk management objectives and policies

The Group's major financial instruments including trade and other receivables, escrow money, bank balances and cash, trade and other payables, bank borrowings, other borrowings, provision for bank loans guarantee for a deconsolidated subsidiary, loan from an investor, amount due to an investor, other financial liabilities and liability component of Convertible Loan Notes. Details of the financial instruments are disclosed in respective notes. The risks associated with these financial instruments include market risk (currency risk and interest rate risk), credit risk and liquidity risk. The Group has written risk management policies and guidelines. The management meets periodically to analyse and formulate strategies to manage the Group's exposure to market risk. The Group's exposure to market risk is kept to a minimum. The Group has not used any derivatives or other instruments for hedging purpose.

The Group does not actively engage in the trading of financial assets for speculative purposes nor does it write options. The most significant financial risks to which the Group is exposed to are described below.

Market risk*(i) Currency risk*

The Group's exposure to currency risk is attributable to the bank balances and cash and other financial liabilities of the Group which are denominated in foreign currencies of USD and HKD. The Group currently does not have a foreign currency hedging policy in respect of foreign currency exposure. However, the management monitors foreign exchange exposure closely and will consider hedging significant foreign currency exposure should the need arise.

The carrying amounts of the entity's foreign currency denominated monetary assets and monetary liabilities at the end of the reporting period are as follows.

	2011 <i>RMB'000</i>	2010 <i>RMB'000</i>
USD		
Monetary asset:		
Bank balance and cash	106	–
	<u>106</u>	<u>–</u>
USD		
Monetary liability:		
Other financial liabilities	–	67,575
	<u>–</u>	<u>67,575</u>
HKD		
Monetary asset:		
Bank balance and cash	9	–
	<u>9</u>	<u>–</u>

Sensitivity analysis

The Group is mainly exposed to USD and HKD. The following table details the Group's sensitivity analysis, the analysis assumes a 5% increase and decrease in USD and HKD against the RMB, with all other variable held constant. 5% is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the reasonably possible change in foreign exchange rates until the next reporting period. The sensitivity analysis includes only outstanding items denominated in foreign currencies other than the functional currencies of the group entities and adjusts their translation at the year end for a 5% change in foreign currency rates. A positive number below indicates an increase in the post-tax profit where RMB strengthen 5% against USD and HKD. For a 5% weakening of RMB against USD and HKD, there would be an equal and opposite impact on the post-tax profit.

	2011 <i>RMB'000</i>	2010 <i>RMB'000</i>
Impact on profit before tax		
HKD	1	–
USD	5	3,379
	<u>5</u>	<u>3,379</u>

(ii) Interest rate risk

The Group is exposed to cash flow interest rate risk in relation to its variable rate borrowings. To mitigate the impact of interest rate fluctuations, the Group continually assesses and monitors the exposure to interest rate risk.

Interest rate sensitivity analysis

The sensitivity analysis below has been determined based on the exposure to interest rates for the bank borrowings at the end of the reporting period. For floating rate liabilities, the analysis is prepared assuming the amount of the 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 ended 31 December 2011 would remain unchanged (in year 2010: increase/decrease by RMB616,000).

Credit risk

Credit risk arises from the possibility that the counterparty to a transaction is unwilling or unable to fulfill its obligation with the results that the Group thereby suffers financial loss.

The Group's concentration of credit risk by geographical locations is only in the PRC, which accounted for 100% (31 December 2010: 100%) of the total trade receivables as at 31 December 2011.

The carrying amounts of trade and other receivables, escrow money and bank balances and cash represents the Group's maximum exposure to credit risk in relation to financial assets. The carrying amounts of these financial assets presented in the consolidated statement of financial position are net of impairment losses, if any. At 31 December 2011, the Group has concentration of credit risk as 16% and 65% (2010: 16% and 76%) of the total trade receivables was due from the Group's largest customer and the five largest customers respectively.

The Group monitors trade and other receivables and only trades and deals with creditworthy third parties. Accordingly, the Group's exposure to bad debt is not significant.

Further quantitative disclosures in respect of the Group's exposure to credit risk arising from trade and other receivables are set out in Note 18 to the consolidated financial statements.

The credit risk on liquid fund is limited because the counterparties are bank with high credit rating assigned by international credit rating agencies.

Liquidity risk**Liquidity management**

In the management of the liquidity risk, the Group monitors and maintains a level of cash and cash equivalents deemed adequate by the directors of the Company to finance the Group's operations and mitigate the effects of fluctuations in cash flows.

The following table details the Group's remaining contractual maturity for its non-derivative financial liabilities based on the agreed repayment terms. The table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay.

The table includes both interest and principal cash flows. To the extent that interest flows are floating rate, the undiscounted amount is derived from interest rate curve at the end of the reporting period.

	Weighted averaged interest rate (%)	Carrying amount RMB'000	Total contractual undiscounted cash flow RMB'000	On demand or within one year RMB'000	One to five years RMB'000
2011					
Trade and other payables	–	11,961	11,961	11,961	–
Liability component of Convertible loan notes	17.69	7,405	16,314	298	16,016
		<u>19,366</u>	<u>28,275</u>	<u>12,259</u>	<u>16,016</u>
2010					
Trade and other payables	–	13,490	13,490	13,490	–
Bank borrowings	5.94	61,146	64,778	64,778	–
Other borrowings	5.00	48,626	51,057	51,057	–
Provision for bank loans guarantee for a deconsolidated subsidiary	–	29,000	29,000	29,000	–
Loan from an investor	–	5,078	5,078	5,078	–
Amount due to an investor	–	265	265	265	–
Other financial liabilities	1.77	67,575	68,771	68,771	–
		<u>225,180</u>	<u>232,439</u>	<u>232,439</u>	<u>–</u>

42. Statement of financial position of the Company

	<i>Notes</i>	2011 <i>RMB'000</i>	2010 <i>RMB'000</i>
NON-CURRENT ASSET			
Investment in a subsidiary		8	8
CURRENT ASSETS			
Other receivables		385	–
Amount due from a subsidiary	<i>a</i>	21,282	326,998
Escrow money		–	888
Bank balances and cash		–	2
		<u>21,667</u>	<u>327,888</u>
CURRENT LIABILITIES			
Other payables and accrued expenses		405	3,576
Bank borrowings		–	61,146
Other borrowings		–	48,626
Provision for bank loans guarantee for a deconsolidated subsidiary		–	29,000
Loan from an investor		–	5,078
Amount due to an investor		–	265
Other financial liabilities		–	67,575
		<u>405</u>	<u>215,266</u>
NET CURRENT ASSETS		<u>21,262</u>	<u>112,622</u>
NON-CURRENT LIABILITY			
Convertible Loan Notes		7,405	–
NET ASSETS		<u><u>13,865</u></u>	<u><u>112,630</u></u>
CAPITAL AND RESERVES			
Share capital		698	67,399
Reserves	<i>b</i>	13,167	45,231
		<u><u>13,865</u></u>	<u><u>112,630</u></u>

Notes:

- (a) Amount due from a subsidiary is unsecured, interest free and repayable on demand.
- (b) Reserves

	Share premium <i>RMB '000</i> <i>(Note i)</i>	Share options reserve <i>RMB '000</i> <i>(Note ii)</i>	Convertible loan notes equity reserve <i>RMB '000</i> <i>(Note 29)</i>	Translation reserve <i>RMB '000</i>	Accumulated losses <i>RMB '000</i>	Total <i>RMB '000</i>
At 1 January 2010	215,765	13,699	-	-	(182,564)	46,900
Profit for the year, representing total comprehensive income for the year	-	-	-	-	(1,669)	(1,669)
Lapsed of share options	-	(12,761)	-	-	12,761	-
At 31 December 2010	215,765	938	-	-	(171,472)	45,231
Profit for the year	-	-	-	-	(181,913)	(181,913)
Exchange differences arising on translating foreign operations	-	-	-	269	-	269
Total comprehensive income for the year	-	-	-	269	(181,913)	(181,644)
Capital Reduction	-	-	-	-	67,314	67,314
Subscription of New Shares by Investors	22,357	-	-	-	-	22,357
Subscription of Convertible Preference Shares by investors	50,546	-	-	-	-	50,546
Bonus Issue	(1)	-	-	-	-	(1)
Issuance of Scheme Creditors Options	-	1,735	-	-	-	1,735
Issuance of Convertible Loan Notes	-	-	7,629	-	-	7,629
At 31 December 2011	288,667	2,673	7,629	269	(286,071)	13,167

Notes:

- i) Under the Companies Law (Revised) Chapter 22 of the Cayman Islands, the share premium of the Company is available for paying distributions or dividends to shareholders subject to the provisions of its Memorandum or Articles of Associations and provided that immediately following the distribution or dividends, the Company is able to pay its debts as they fall due in the ordinary course of business.
- ii) Share options reserve represents the portion of the grant date fair value of unexercised share options granted under the share option scheme or unexercised Creditors Options granted under the Debt Restructuring as mentioned in Note 2 to the consolidated financial statement adopted by the Company.

43. Events after the reporting period

At the extraordinary general meeting of the Company held on 22 February 2012, ordinary resolutions were duly passed for approving (i) the proposed general mandate to be granted to the Directors to allot, issue and deal with new Shares not exceeding 20% of the aggregate nominal amount of the share capital of the Company; and (ii) the adoption of the new share option scheme and termination of existing share option scheme. For details, please refer to the circular of the Company dated 6 February 2012.

44. Major non-cash transactions

- i) Part of the liabilities of Scheme Creditors were compromised, discharged and/or settled by issuance of Creditors Options. For details, please refer to Notes 2 and 8 to the consolidated financial statement.
- ii) Loan from an investor and amount due to an investor is applied to set-off part of the subscription monies payable by the Investors for the New Shares under the Restructuring Agreement during the year ended 31 December 2011.

4. INDEBTEDNESS

As at the close of business on 30 November 2012, being the latest practicable date for the purpose of the statement of indebtedness prior to the printing of this Composite Document, apart from the Convertible Notes, intra-group liabilities, normal trade and other payables, the Group did not have any mortgages, charges, debentures, loan capital, bank overdrafts, loans, liabilities under acceptance (other than under normal trade bills) or other similar indebtedness, hire purchase or finance lease obligations or any guarantees or other material contingent liabilities.

5. MATERIAL CHANGES

The Directors confirm that, save as and except for the below, there has been no material change in the financial or trading position or outlook of the Group since 31 December 2011, being the date to which the latest published audited consolidated financial statements of the Group were made, up to and including the Latest Practicable Date:

- (i) the Company published two profit warning announcements on 25 July 2012 and 24 December 2012 respectively. Further to the Company's profit warning announcement dated 25 July 2012 and the interim results announcement dated 20 August 2012 where it was disclosed that, among other things, the Group recorded a loss for the six months ended 30 June 2012 as compared to a profit for the same period of last year, the Board announced on 24 December 2012 that it is expected that the Group continues to record a loss in the second half of 2012, which would result in a loss for the year ending 31 December 2012 as compared to a profit recorded in the year ended 31 December 2011. The reasons for the expected loss include but not limited to (1) the Group will not record any gain from restructuring as in the financial year ended 31 December 2011; (2) increase in overhead and administrative expenses; (3) decrease in turnover; and (4) provision of doubtful debt (if any) and/or impairment loss (if any). After completion of the restructuring of the Group and the discharge of the provisional liquidators of the Company in November 2011, the Company has resumed its normal operations in Hong Kong and has incurred increased overhead and administrative expenses since then;
- (ii) due to the increase in overhead and administrative expenses and decrease in turnover as mentioned in (i) above, the Group has recorded a decrease in bank balances and cash;
- (iii) the Group has been facing poor operating environment in the PRC, under which there has been slowing down of the PRC economy resulting in decreased demand for beverages, tightening credit control and inflationary pressure in the PRC. As a result, the Group has recorded a decrease in turnover and an increase in trade receivables as at the Latest Practicable Date. In addition, the Group is also considering whether there is any need for provision of doubtful debt (if any) and/or impairment loss (if any); and
- (iv) given that subsequent to the schemes of arrangement becoming effective in November 2011, all of the bank borrowings of the Group have been cancelled and thus the Group ceased to record any exchange gain from bank borrowings. Due to this reason, the Group has been recording a decrease in other revenue since 31 December 2011.

1. RESPONSIBILITY STATEMENT

The sole director of the Offeror accepts full responsibility for the accuracy of the information contained in this Composite Document (other than the information relating to the Group, the Vendors and parties acting in concert with any of them), and confirms, having made all reasonable enquires, that to the best of his knowledge, opinions expressed in this Composite Document have been arrived at after due and careful consideration and there are no other facts not contained in this Composite Document, the omission of which would make any statement in this Composite Document misleading.

The Directors jointly and severally accept full responsibility for the accuracy of the information contained in this Composite Document (other than the information relating to the Offeror and parties acting in concert with it), and confirm, having made all reasonable enquires, that to the best of their knowledge, opinions expressed in this Composite Document have been arrived at after due and careful consideration and there are no other facts not contained in this Composite Document, the omission of which would make any statement in this Composite Document misleading.

2. SHARE CAPITAL

As at the Latest Practicable Date, the authorised and issued share capital of the Company were as follows:

<i>Authorised:</i>		<i>HK\$</i>
<u>249,480,000,000</u>	Shares	<u>249,480,000</u>
<u>520,000,000</u>	Convertible Preference Shares	<u>520,000</u>
<i>Issued and fully paid:</i>		
<u>340,662,666</u>	Shares	<u>340,662.67</u>
<u>520,000,000</u>	Convertible Preference Shares	<u>520,000.00</u>

All the existing issued Shares are fully paid up and rank *pari passu* in all respects including all rights as to dividends, voting and capital.

Since the end of the last financial year of the Company, i.e. 31 December 2012, no new Shares have been issued.

As at the Latest Practicable Date, the Company has 340,662,666 Shares in issue. In addition, the Company has outstanding (i) Convertible Notes, (ii) Convertible Preference Shares; and (iii) 1,430,862 Share Options with exercise prices of HK\$4.9911, HK\$6.3968 and HK\$7.2024 respectively, conferring rights to subscribe for a total of 1,430,862 Shares. Save for the Convertible Notes, the Convertible Preference Shares and the outstanding Share Options, the Company does not have any outstanding options, derivatives, warrants or securities which are convertible or exchangeable into Shares and has not entered into any agreement for the issue of such options, derivatives, warrants or securities which are convertible or exchangeable into Shares as at the Latest Practicable Date.

3. DISCLOSURE OF INTERESTS

(a) Interests in the Shares by the Offeror and parties acting in concert with it

As at the Latest Practicable Date, the Offeror was the beneficial owner of: (i) 201,000,000 Shares, or approximately 59.00% of the entire issued share capital of the Company; (ii) Convertible Notes with principal amount of HK\$12,600,000 carrying rights to convert into 105,000,000 Conversion Shares, being the Sale CN; and (iii) 364,000,000 Convertible Preference Shares carrying rights to convert into 364,000,000 Conversion Shares, being the Sale CPS.

Save as disclosed in the paragraph above, the Offeror, the sole director of the Offeror and parties acting in concert with any of them do not hold any Shares or other securities of the Company carrying voting rights or convertible securities, warrants, options or derivatives of the Company as at the Latest Practicable Date.

(b) Interests and short positions of the Directors and chief executive in the securities of the Company and its associated corporations

As at the Latest Practicable Date, the interests and short positions of the directors and chief executive of the Company in the Shares, underlying Shares and debentures of the Company or its associated corporations within the meaning of the SFO, as recorded in the register required to be kept by the Company under section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the “**Model Code**”) contained in the Listing Rules were as follows:

Long position in shares and underlying shares of the Company:

Name of director	Capacity and nature of interest	Shares	Underlying Shares	Total interests	Approximate percentage of the Company's issued share capital
Mr. Leung Heung Ying, Alvin (“ Mr. Leung ”) (Note a)	Interest in a controlled corporation	29,000,000 (Note b)	201,000,000 (Note c)	230,000,000	67.52

Notes:

- The entire issued share capital of BGL is beneficially owned by Mr. Leung. Mr. Leung is therefore deemed to be interested in the Shares and underlying Shares held by BGL under the SFO.
- BGL is holding such 29,000,000 Shares via its trustee, Market Giant Investments Limited.
- Among the 201,000,000 underlying Shares, 156,000,000 underlying Shares represent the 156,000,000 Convertible Preference Shares owned by BGL which are convertible into 156,000,000 Conversion Shares; and the remaining 45,000,000 underlying Shares represent the Convertible Notes in the principal amount of HK\$5,400,000 owned by BGL which are convertible into Conversion Shares at HK\$0.12 per Conversion Share (subject to adjustments).

Save as disclosed in this sub-section (b), as at the Latest Practicable Date, none of the directors or chief executive of the Company had registered an interest or short positions in the Shares or underlying Shares of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) that was required to be recorded pursuant to section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

(c) Interests and short positions of the substantial shareholders and other person's in the securities of the Company

As at the Latest Practicable Date, the following interests of more than 5% of the issued share capital of the Company were recorded in the register of interests required to be kept by the Company pursuant to Section 336 of the SFO:

Long positions in shares and underlying shares of the Company

Name of Shareholder	Capacity and nature of interest	Shares	Underlying Shares	Total interests	Approximate percentage of the Company's issued share capital
BGL <i>(Note c)</i>	Beneficial owner	29,000,000 <i>(Note a)</i>	201,000,000 <i>(Note b)</i>	230,000,000	67.52
Offeror <i>(Note e)</i>	Beneficial owner	201,000,000	469,000,000 <i>(Note d)</i>	670,000,000	196.67
Mr. He <i>(Note e)</i>	Interest in a controlled corporation	201,000,000	469,000,000	670,000,000	196.67

Notes:

- a. BGL is holding such 29,000,000 Shares via its trustee, Market Giant Investments Limited.
- b. Among the 201,000,000 underlying Shares, 156,000,000 underlying Shares represent the 156,000,000 Convertible Preference Shares owned by BGL which are convertible into 156,000,000 Conversion Shares; and the remaining 45,000,000 underlying Shares represent the Convertible Notes in the principal amount of HK\$5,400,000 owned by BGL which are convertible into Conversion Shares at HK\$0.12 per Conversion Share (subject to adjustments).
- c. The entire issued share capital of BGL is beneficially owned by Mr. Leung. Mr. Leung is therefore deemed to be interested in the Shares held by BGL under the SFO.
- d. Among the 469,000,000 underlying Shares, 364,000,000 underlying Shares represent the Sale CPS; and the remaining 105,000,000 underlying Shares represent the Sale CN.
- e. The entire issued share capital of the Offeror is beneficially owned by Mr. He. Mr. He is therefore deemed to be interested in the Shares held by the Offeror under the SFO.

Save as disclosed in this sub-section (c), the Company had not been notified of other relevant interests or short positions in the shares and underlying shares of the Company as at the Latest Practicable Date as required pursuant to section 336 of the SFO.

- (d) As at the Latest Practicable Date, save as disclosed in sub-paragraphs (a) and (b) above:
- none of the Offeror, its sole director or any parties acting in concert with any of them had any interests in or owned or controlled any Shares or other securities of the Company carrying voting rights or convertible securities, warrants, options or derivatives of the Company;
 - there were no Shares or other securities of the Company carrying voting rights or convertible securities, warrants, options or derivatives of the Company which the Offeror or any parties acting in concert with it has borrowed or lent;
 - none of the Directors or the Company had interest in the equity share capital or any convertible securities, warrants, options and derivatives of the Offeror;
 - no Shares or other securities of the Company carrying voting rights or any convertible securities, warrants, options and derivatives of the Company was owned or controlled by a subsidiary of the Company or by a pension fund (if any) of any member of the Group or by an adviser to the Company as specified in class (2) of the definition of associate under the Takeovers Code;
 - no Shares or other securities of the Company carrying voting rights or any convertible securities, warrants, options or derivatives of Company are managed on a discretionary basis by fund managers connected with the Company; and
 - none of the Company or any of the Directors has borrowed or lent any Shares or other securities of the Company carrying voting rights or convertible securities, warrants, options or derivatives of the Company.
- (e) The Offeror will finance the Offers from the Facility granted by Kingston Securities. Save for the Shares acquired through the Sale and Purchase Agreement and the Shares to be acquired through the Offers being pledged to Kingston Securities for the Facility, there was no agreement, arrangement or understanding that any securities, acquired in pursuance of the Offers would be transferred, charged or pledged to any other persons.
- (f) Save for the Irrevocable Undertaking, no person who owned or controlled any Shares or other securities of the Company carrying voting rights or convertible securities, warrants, options or derivatives of the Company has irrevocably committed themselves to accept or not to accept the Offers.
- (g) Save for the Irrevocable Undertaking, none of the Offeror, or any parties acting in concert with it, have entered into any arrangements of the kind (whether by way of option, indemnity, or otherwise) as referred to in Note 8 to Rule 22 of the Takeovers Code with any other person.
- (h) No person has any arrangement of the kind referred to in Note 8 to Rule 22 of the Takeovers Code with the Company or with any person who is an associate of the Company by virtue of classes (1), (2), (3) and (4) of the definition of associate under the Takeovers Code.
- (i) There is no agreement or arrangement to which the Offeror is party which relate to the circumstances in which it may or may not invoke or seek to invoke a condition to the Offers.

4. DEALINGS IN SECURITIES

- (a) During the Relevant Period, saved for the transactions under the Sale and Purchase Agreement (details of which are set out in the “Letter from Kingston Securities” in this Composite Document:
- none of the Directors had dealt in any Shares or other securities of the Company carrying voting rights or convertible securities, warrants, options or derivatives of the Company;
 - none of the Offeror, its sole director or any parties acting in concert with it had dealt in any Shares or other securities of the Company carrying voting rights or convertible securities, warrants, options or derivatives of the Company;
 - no person (if any) with whom the Offeror or any parties acting in concert with it has an arrangement, if any, of the kind referred to in Note 8 to Rule 22 of the Takeovers Code had dealt for value in the Shares or other securities of the Company carrying voting rights or any convertible securities, warrants, options or derivatives of the Company; and
 - none of the Offeror or any parties acting in concert with it has borrowed or lent in any Shares or other securities of the Company carrying voting rights or convertible securities, warrants, options or derivatives of the Company.
- (b) During the Relevant Period:
- the Company did not deal in any interest in the equity share capital or any convertible securities, warrants, options and derivatives of the Offeror;
 - none of the Directors had dealt in any equity share capital or any convertible securities, warrants, options and derivatives of the Offeror;
 - none of the subsidiaries of the Company or by a pension fund (if any) of any member of the Group or by an adviser to the Company as specified in class (2) of the definition of associate under the Takeovers Code but excluding exempt principal traders had dealt in any interest in the Shares or other securities of the Company carrying voting rights or any convertible securities, warrants, options and derivatives of the Company; and
 - Save for Mr. Leung Heung Ying, Alvin, the executive Director and the director of BGL, one of the Vendors of the Sale and Purchase Agreement, no person, if any, with whom the Company or any person who is an associate of the Company by virtue of classes (1), (2), (3) and (4) of the definition of associate under the Takeovers Code having an arrangement of the kind referred to in Note 8 to Rule 22 of the Takeovers Code had dealt in the Shares or other securities of the Company carrying voting rights or any convertible securities, warrants, options and derivatives of the Company.

5. MARKET PRICES

- (a) The highest closing price of the Shares as quoted on the Stock Exchange during the Relevant Period was HK\$0.300 per Share on 27 August 2012. The lowest closing price of the Shares as quoted on the Stock Exchange during the Relevant Period was HK\$0.164 per Share on 26 July 2012.
- (b) The table below sets out the closing prices of the Shares as quoted on the Stock Exchange on (i) the last trading day of each of the calendar months during the Relevant Period; and (ii) the Latest Practicable Date:

Date	Share price <i>HK\$</i>
31 May 2012	0.1850
29 June 2012	0.2310
31 July 2012	0.1700
31 August 2012	0.2800
28 September 2012	0.2200
31 October 2012	0.2080
22 November 2012 (Last Trading Day)	0.2140
31 December 2012	0.2400
Latest Practicable Date	0.2430

- (c) The closing price of the Shares as quoted on the Stock Exchange on the Last Trading Day was HK\$0.2140.

6. LITIGATION

As at the Latest Practicable Date, neither the Company nor any other members of the Group is engaged in any litigation or arbitration of material importance and no litigation or claim of material importance was or is known to the Directors to be pending or threatening by or against any member of the Group.

7. MATERIAL CONTRACTS

The following contracts have been entered into by the Group (not being contracts entered into in the ordinary course of business carried out or intended to be carried out by the Company or any of its subsidiaries) within the two years immediately preceding the date of the Announcement and up to the Latest Practicable Date, which are or may be material:

- (i) the exclusivity and escrow agreement dated 28 December 2009 entered into between the Company, FTI Consulting (Hong Kong) Limited (formerly Ferrier Hodgson Limited) and BGL, relating to the restructuring of the Group (as amended by three supplemental agreements dated 25 November 2010, 24 December 2010 and 21 January 2011 respectively). No consideration was involved in the exclusivity and escrow agreement; and

- (ii) the restructuring agreement dated 17 June 2011 (as supplemented and amended by a side letter dated 9 September 2011) entered into between the Company, IAM, BGL, the then provisional liquidators of the Company and FTI Consulting (Hong Kong) Limited (formerly Ferrier Hodgson Limited), being the escrow agent, in relation to the restructuring of the business, debts and liabilities, capital structure and share capital of the Company, or its subsidiaries, associated companies or other entities in which the Company holds an interest and which shall include capital reorganisation, subscription of new shares, preference shares and convertible notes at a consideration of HK\$27.6 million, HK\$62.4 million and HK\$18.0 million respectively, bonus issue, the whitewash waiver and implementation of the schemes of arrangement in Hong Kong and the Cayman Islands.

8. EXPERTS AND CONSENTS

The followings are the qualification of the experts who have given opinions or advice contained in this Composite Document:

Name	Qualification
Kingston Securities	A licenced corporation to carry out Type 1 (dealing in securities) regulated activity under the SFO
Kingston Corporate Finance	A licenced corporation to carry out Type 6 (advising on corporate finance) regulated activity under the SFO
Guangdong Securities	A licenced corporation to carry out type 1 (dealing in securities), type 2 (dealing in futures contracts), type 4 (advising on securities), type 6 (advising on corporate finance) and type 9 (asset management) regulated activities under the SFO
ZHONGLEI (HK) CPA Company Limited	Certified Public Accountants

Each of Kingston Securities, Kingston Corporate Finance, Guangdong Securities and ZHONGLEI (HK) CPA Company Limited has given and not withdrawn its written consent to the issue of this Composite Document with the inclusion herein of its recommendation or opinion, as the case may be, and reference to its name, in the form and context in which they are included.

9. GENERAL

- (a) No benefit (other than statutory compensation) will be given to any Director as compensation for loss of office or otherwise in connection with the Offers.
- (b) As at the Latest Practicable Date, save for the Irrevocable Undertaking, there was no agreement, arrangement or understanding (including any compensation arrangement) between the Offeror or any party acting in concert with the Offeror and any Directors, recent Directors, Shareholders or recent Shareholders having any connection with or was dependent upon the Offers.

- (c) As at the Latest Practicable Date, there was no agreement or arrangement between any of the Directors and any other person which is conditional on or dependent upon the outcome of the Offers or otherwise connected with the Offers.
- (d) As at the Latest Practicable Date, save for the Sale and Purchase Agreement, there was no material contract entered into by the Offeror in which any Director has a material personal interest.
- (e) As at the Latest Practicable Date, there was no agreement or arrangement to which the Offeror is a party which relate to the circumstances in which it may or may not invoke or seek to invoke a condition to the Offers.
- (f) As at the Latest Practicable Date, none of the Directors had any service contracts with the Company or any of its subsidiaries or associated companies in force which (i) (including both continuous and fixed term contracts) have been entered into or amended within 6 months preceding the date of the Announcement; (ii) are continuous contracts with a notice period of 12 months or more; or (iii) are fixed term contracts with more than 12 months to run irrespective of the notice period.

10. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents are available for inspection on the website of the Company (<http://www.cpackaging.com.hk>) and the SFC (www.sfc.hk) from the date of this Composite Document until the Closing Date:

- (a) the memorandum and articles of association of the Company;
- (b) the memorandum and articles of association of the Offeror;
- (c) the annual reports of the Company for the year ended 31 December 2010 and the year ended 31 December 2011;
- (d) the interim report of the Company for the six months ended 30 June 2012;
- (e) the letter from Kingston Securities, the text of which is set out on pages 7 to 14 of this Composite Document;
- (f) the letter from the Board, the text of which is set out on pages 15 to 20 of this Composite Document;
- (g) the letter from the Independent Board Committee to the Independent Shareholders, the text of which is set out on pages 21 to 22 of this Composite Document;
- (h) the letter from ZHONGLEI (HK) CPA Company Limited, the text of which is set out in Section (a) of Appendix IV of this Composite Document;
- (i) the letters from Guangdong Securities, the text of which is set out on pages 23 to 36 and section (b) of Appendix IV of this Composite Document;
- (j) the written consents referred to in the section headed “Experts and consents” in this appendix; and
- (k) the material contracts referred to in the section headed “Material contracts” in this appendix.

11. MISCELLANEOUS

- (a) The secretary of the Company is Mr. Leung Heung Ying, Alvin, a fellow member of the Institute of Chartered Accountants in England and Wales, and the Hong Kong Institute of Certified Public Accountant.
- (b) The registered office of the Company is situated at Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman KY1-1111, Cayman Islands and the head office and principal place of business of the Company in Hong Kong is located at Suite 06-07, 28th Floor, Shui On Centre, 6-8 Harbour Road, Wanchai, Hong Kong.
- (c) The branch share registrar and transfer office of the Company in Hong Kong is Computershare Hong Kong Investor Services Ltd. at Shops 1712-1716, 17/F., Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong.
- (d) The registered office and the business address of the Offeror are OMC Chambers, Wickhams Cay 1, Road Town, Tortola, British Virgin Islands and 12/F., New World Tower II, 18 Queen's Road Central, Hong Kong, respectively.
- (e) As at the Latest Practicable Date, Mr. He, who is deemed to be a party acting in concert with the Offeror under the Takeovers Code, is the sole shareholder and sole director of the Offeror and his address is 12th Floor, New World Tower II, 18 Queen's Road Central, Hong Kong.
- (f) The registered office of Kingston Corporate Finance is situated at Suite 2801, 28/F, One International Finance Centre, 1 Harbour View Street, Central, Hong Kong.
- (g) The registered office of Kingston Securities is at Suite 2801, 28/F, One International Finance Centre, 1 Harbour View Street, Central, Hong Kong.
- (h) The office of Guangdong Securities is situated at Units 2505-06, 25/F., Low Block, Grand Millennium Plaza, 181 Queen's Road Central, Hong Kong.
- (i) The English text of this Composite Document and the accompanying Form of Acceptance shall prevail over their respective Chinese text in case of inconsistency.

The statements in relation to the expected loss in the Group's financial results for the year ended 31 December 2012 as compared to a profit for the year ended 31 December 2011 (the "Statement") as disclosed in the December Announcement and referred to in this Composite Document, which constitute a profit forecast of the Company for the purpose of Rule 10 of the Takeovers Code, are set out in the paragraph headed "Information on the Group" under the section headed "Letter from the Board" in this Composite Document.

1. BASES

The Directors have arrived at the Statement in the December Announcement based on the then information available to the Group.

2. COMFORT LETTERS

Set out below are the text of the letters received by the Directors from ZHONGLEI (HK) CPA Company Limited, Certified Public Accountants, and from the Independent Financial Adviser in connection with the Statement for the purpose of inclusion in this Composite Document.

A. AUDITOR'S LETTER ON THE LOSS ESTIMATE

The following is the text of a letter on the Statement, prepared for the sole purpose of inclusion in this Composite Document, received from ZHONGLEI (HK) CPA Company Limited, Certified Public Accountants, Hong Kong.



中磊 (香港) 會計師事務所有限公司
ZHONGLEI (HK) CPA Company Limited

29 January 2013

The Directors,
China Packaging Group Company Limited
Suites 06-07, 28th Floor,
Shui On Centre,
6-8 Harbour Road,
Wanchai,
Hong Kong

Dear Sirs,

We have examined the accounting policies adopted and calculations of the expected loss of China Packaging Group Company Limited (the “**Company**”) and its subsidiaries (collectively known as the “**Group**”) for the year ended 31 December 2012 (the “**Estimation**”) in arriving at the profit warning statement (the “**Statement**”) made by the Company in its announcement dated 24 December 2012.

RESPONSIBILITIES

The directors of the Company (the “**Directors**”) are solely responsible for the preparation of the Estimation.

It is our responsibility to form an opinion, based on our work on the Estimation and to report our opinion solely to you, as a body, solely for the purpose of reporting under Rule 10.1 and 10.2, note 1(c) of the Code on Takeovers and Mergers on the Securities and Futures Commission and for no other purpose.

SUMMARY OF OUR WORK

We conducted our work with reference to the procedures specified in Auditing Guideline 3.341 “Accountants’ Report on Profit Forecasts”. We examined the consistency of accounting policies adopted and the arithmetical accuracy of the Estimation. Our work has been undertaken solely to assist the Directors in evaluating whether the Estimation, so far as the accounting policies and calculations are concerned, has been properly compiled in accordance with the basis adopted by the Directors.

OPINION

In our opinion, so far as the accounting policies and calculations are concerned, the Estimation has been properly compiled in accordance with the basis adopted by the Directors as set out in Appendix IV-1 in the composite document of the Company dated 29 January 2013 (the “**Composite Document**”) and is presented on a basis consistent in all material aspects with the accounting policies adopted by the Group in its audited consolidated financial statements for the year ended 31 December 2011, the text of which is set out in Appendix II to the Composite Document.

Yours faithfully,

ZHONGLEI (HK) CPA Company Limited

Certified Public Accountants (Practising)

Lam Chik Tong

Practising Certificate Number: P05612

Hong Kong

Suites 313-317, 3/F, Shui On Centre
6-8 Harbour Road, Wanchai, Hong Kong

B. INDEPENDENT FINANCIAL ADVISER'S REPORT ON THE LOSS ESTIMATE

The following is the text of a report on the Statement prepared for the sole purpose of inclusion in this Composite Document, received from the Independent Financial Adviser, Guangdong Securities Limited.



29 January 2013

The Board of Directors
China Packaging Group Company Limited
Suite 06-07, 28th Floor
Shui On Centre
6-8 Harbour Road
Wanchai, Hong Kong

Dear Sirs,

Terms used in this letter have the same meanings as defined in the composite document of China Packaging Group Company Limited dated 29 January 2013, of which this letter forms part, unless the context requires otherwise. We refer to the profit warning statement made by the Company in its announcement dated 24 December 2012 in respect of the Group's financial results for the year ended 31 December 2012 (the "**Statement**").

We have reviewed the Statement and other relevant information and documents which you as the Directors are solely responsible for and discussed with you and the senior management of the Company the bases upon which the Statement has been made. In addition, we have considered, and relied upon, the report addressed to the Board from ZHONGLEI (HK) CPA Company Limited regarding the accounting policies and the arithmetical accuracy of the calculations upon which the Statement has been made.

On the basis of the foregoing, we are of the opinion that the Statement, for which the Directors are solely responsible, has been made with due care and consideration.

Yours faithfully
For and on behalf of
Guangdong Securities Limited
Graham Lam
Managing Director