



Southern packaging



FORWARD DRIVEN FUTURE READY

ANNUAL REPORT 2019

CORPORATE CULTURE

We believe that customer loyalty comes from good customer experience. Southern Packaging strives to provide exceptional service and quick response to customer demand and continue to provide customers with packaging solutions.

The key for constant growth of an enterprise is to have an endless passion for innovation. Southern Packaging focused on innovation that considers the environment and society thus improving quality of life for our customers.

We achieve excellence by enhancing product value, employee value, business value and social value. Excellent quality not only means good product quality, but also high quality service, and healthy living space.

企业文化

愿景

装点世界，力臻完美

使命

以先进的技术满足更广泛的市场需求，以专业的品质满足客户个性化的需求，以安全、环保的产品回报社会，为我们的投资者创造长期价值，为我们的员工提供实现自我价值的舞台，始终坚持共存、双赢的合作战略。

核心价值观

客户第一：创新环保追求卓越

客户第一：我们坚信客户忠诚度源于享受具有最佳价值的客户体验，坚持以提高服务质量，快速响应客户需求，持续为客户提供产品解决方案。

创新环保：企业突破性发展的关键在于永无止境、永不间断的进行创新，公司坚持以创新环保改善生活品质，为客户和环境作出贡献。

追求卓越：以卓越的品质提升产品价值、员工价值、企业价值和社会价值。卓越的品质不仅是指优秀的产品质量，还包含最优质的服务、最健康的生活空间。

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CORPORATE PROFILE

Southern Packaging Group Limited (“Southern Packaging”, the “Company” or together with its subsidiaries, the “Group”) is a producer of flexible and rigid packaging products used in the food, medical, personal grooming and household industries, and was listed on the main board of the Singapore Stock Exchange in the year 2004. We are committed to be the preferred suppliers of packaging products and packaging consultants to many internationally renowned brands and companies. Our production facilities strategically located at the most economically vibrant regions in China, namely, Southern and Eastern China.

Within the flexible packaging arm, we primarily utilise plastic gravure printing technology to provide Printing, Compounding, Splitting and Bagging of plastic in producing packaging products for our customers. Within the rigid packaging arm, we utilise Wheel Blow Moulding, One Step Injection Stretch Blow Moulding, Injection Moulding, In-mould Labeling, Extrusion Blow Moulding, Injection Blow Moulding, Silk Screen, Film Blowing, Printing, Stamping and other additional services to produce packaging products for our customers.

We leverage on our established and resourceful research and development platform to provide complete packaging solutions for our customers. In our packaging industry, qualities such as environmental friendliness, cleanliness and safety are fundamental. We retain and strengthen our competitive advantages by the continuous development of our cutting-edge polymer chemistry technologies and expertise in material sciences and plastic moulding. We firmly believe in developing packaging with social responsibility, and we are proud to be the “brand behind the renowned brands”.



公司介绍

南方包装集团有限公司立足全球最大消费市场之一的中国市场，是一家为众多食品、药品、个人护理品及家庭用品行业提供专业塑料包装产品的科技型企业。我们是国际知名品牌的包装供应商及包装技术顾问，集团生产基地主要布局在中国沿海地区，分别在经济最为活跃的中国南部及东部地区建立了生产基地，集团拥有宽广的塑料包装工艺设备与技术，利用强大的研发平台与供应链资源，为众多的领先企业提供塑料包装产品及包装解决方案。

塑料软包装主要是采用塑料凹版印刷技术为客户提供以下的服务：

- 印刷
- 复合
- 分条、制袋

塑料硬包装主要集中在中空成型技术为客户提供以下成型工艺服务：

- 全自动高速轮转中空成型
- 注拉吹一步法中空成型
- 注塑成型、模内贴标
- 挤吹成型
- 注吹成型
- 丝印、移印、烫印、激光打码等附加服务

我们的目标市场定位在环保、安全、高洁净的包装需求，集团的竞争优势在于拥有强大的高分子化学、材料科学及塑料成型领域的人才和技术；我们以高度的社会责任推动包装事业的发展，为能成为“知名品牌后的品牌”感到自豪；建设环境友好型企业也是我们企业发展的社会责任目标，在提供精美包装满足人类对美好生活追求的同时，我们坚持在材料、环境、生态、经济可持续发展上与社会同步。

包装承载的内涵

品牌商

—展示产品，吸引消费者，保持状态和风味、传递商品信息

消费者

—保护商品、方便携带、产品说明

运输商

—方便装运，产品的保护不受破坏

超市、零售商

—保护产品、便于储存和搬运、货架期

我们理解包装承载了价值链所有相关方的需要和关切，我们智慧诠释包装的内涵。



CHAIRMAN'S MESSAGE

Dear Shareholders,

We are a producer of flexible and rigid packaging products used in the food, medical, personal grooming and household industries and committed to be the preferred supplier of packaging products to many internationally renowned brands and companies. We are specialised in applying cutting-edge polyme chemistry technologies in material sciences to provide clean, safe, and excellent functional packaging products to our customers. Our goal is to win market share together with our customers. With years of efforts, the Group has formed a huge differentiated advantage in the packaging industry and created a strong value proposition for shareholders, customers, employees and the environment.

The Group focuses on developing its business in the Chinese market to meet the needs of the fast-moving consumer goods packaging market. We continuously optimise the product structure according to our own technical features and profit demand. In recent years, rigid packaging has been the growth engine for us. The production bases located in the eastern and southern coastal areas of China have successfully met the needs of the market and ensured the sales market share. In order to further improve the production capacity, we carried out the construction of new factory building In JiangSu during the year.

During the year, the global trade disputes have seriously affected the stability of the supply chain and market demand. Our business is facing great challenges and the cost fluctuation is obvious in each quarter. The Group's revenue decreased by RMB15.1 million (2.1%) from RMB724.2 million in FY2018 to RMB709.1 million in FY2019. However, the Group's gross profit increased by RMB10.4 million (7.6%) to RMB147.7 million in FY2019 as compared to RMB137.2 million in FY2018. Our proper market strategy, advanced production techniques and strict cost control measure improved the profitability of the Group. The profit after tax is RMB9.2 million in FY2019 and the net asset per share increased to RMB7.92.



CHAIRMAN'S MESSAGE

We are very clear that in the fierce market competition environment, the profit is not only from the increase of external sales, but also from the improvement of internal efficiency. During the year, the Group has introduced automatic detection system, assembly system, laser code printing system, and warehouse logistic robot to improve the production efficiency and reduce cost of manufacturing process. The use of automated production and information technology has become an important way for the Group to optimise internal cost control, and ultimately provide us with an advantage to win market share.

Sustainable development is one of the long-term development strategies of the Group. In recent years, our multinational customers also require their packaging products to meet the requirement of sustainable development. We seize the opportunity of this new market demand by applying environmentally friendly reusable raw materials to our new products. These revolutionary packaging products have entered the market and will become an important way for us to reduce the use of plastics and protect the environment in the future.

In order to improve the efficiency of our operation and decision making, we have made appropriate adjustments to the composition of the board of directors, which has been reduced to five members. Two independent directors (Guo Weihai and Tan Jiansheng) left the Group. We thank them again for their contributions to the Group over the years. Other several outgoing executive directors are still responsible for the management of the daily operation. We are a united, mature and innovative team. The new vice president (packaging development) of

the Group, Mr Dai Wei Hong is responsible for sales business and marketing. Mr Dai has been working in the Group for 15 years, with rich experience in marketing and production operation management, unique insights in business development and marketing development. We believe that the investment in talent will ultimately bring huge benefit to the development of the Group.

The Group is building a commercial property ("APEX TOWER") in Foshan, China. The construction is progressing as schedule and the construction of the shop floors in the lower level has been completed at the end of the year. The construction will be completed in FY2021 and part of the development will enter the sales phase during the second half of the year.

The Board of Directors has proposed a cash dividend of S\$0.0025 per ordinary share.

Pan Shun Ming
Executive Chairman
Southern Packaging Group Limited



主席发言

各位亲爱的股东：

2019年南方包装集团经历了平稳发展的一年。

我们在高分子塑料包装行业的长期耕耘，锻造出软性塑料包装与硬性塑料包装的双轮发展战略，此战略定位奠定了我们坚实的发展基础，形成了独特的市场、客户、技术组合等优势，成为食品、药品、家庭及个人护理品塑料包装市场的佼佼者，为品牌企业的成功、为丰富人们的生活，提供了清洁、安全、性能卓越的产品“外衣”，也带来了我们良好的发展机遇，展现了企业、市场、客户共赢的美好前景。这些独特的特点相互促进，为集团在包装行业的发展提供了巨大的差异化竞争优势，并为股东、客户、员工和环境提供了更强大的价值主张。

集团立足和深耕中国塑料包装市场，长期关注与拓展快速消费品包装的需求，伴随中国市场的成熟与发展，集团业务也在产品结构调整中不断做强做稳，硬包装的投入与增长成为我们的一个盈利引擎，中国东部、南部沿海的生产基地布局，成功贴近了市场之需，稳住了基本市场。同时，年度内我们还增加了基础厂房的建设，为产能的进一步提升打下了坚实的基础。

年度内经济受全球区域间贸易争端所引致的需求不足与供应链的不稳定，使得经营面临挑战，体现在各季度间的成本波动比较明显。2019年度集团的销售收入为人民币7.09亿元，较2018年度的人民币7.24亿元下降了1509万元，销售收入微降2.1%；2019年经营毛利为人民币1.48亿元，较2018年的1.37亿元人民币，上升了1043万元人民币，达到7.6%的涨幅；我们正确的市场营销策略、智能化生产技术的投入以及严谨的成本控制措施，使集团的盈利能力得以恢复与提升，年度税后合并利润为人民币920万元，年度末集团净资产进一步提升到人民币7.92元/股。

我们十分明瞭，在激烈的市场竞争环境下，利润既来自外部销量的递增，更来自内部效能的提升。自动化及信息技术的发展，智能制造时代的来临，为传统制造业的发展提供了新的契机，我们必须在此潮流中积极前行。一年来，我们引进和培训适应时代需求的人才，提高包装制造过程的自动化控制与管理水平，推动在线自动检测系统上线、在线组装系统上线、在线激光编码付印系统上线、物流仓库AGV调度系统机器人上线……这一系列的技术改造与提升，大大促进了集团的生产效能提升，并有效地降低了制造过程的成本，这些自主规划、可编程、可多方位协调的智能化和柔性化的系统，已成为我们智能制造的重要组成部分，它将贯穿我们的未来发展路径，成为企业市场竞争的优势。

面对全球可持续发展的人类共同愿景，我们将可持续发展作为公司发展战略之一，并把“循环经济”作为市场发展机会。在实践上，我们已切入生物降解材料应用领域，基于可循环、持续创新的需求，集团进一步与大学、科研机构合作，加强基础材料及应用研究；与供应链上下游联手，在材料、添加剂应用展开广泛的合作。值得一提的是，我们为客户研发的使用环保再生原材料生产的RPET、RHPE瓶已经进入市场，这些革命性的包装产品，未来将能为各行业践行环保承诺提供理想的通路，让科研机构、客户通过我们这个包装智造平台创造出更多符合人类安全发展需求的环保包装产品，让我们的事业由此踏上新的台阶。

因应集团运营及决策效率提升之需，我们对董事局人事组成进行了适当调整，董事局精简为五位成员。郭伟海、谭建盛两位独立董事离任，在此再次感谢他们多年来对公司的贡献；其它几位执行董事离任董事一职后仍在行政岗位上继续发挥着他们的才智，我们仍然拥有团结、成熟及富有创新力的团队。新任集团副总裁戴伟宏先生履职于集团的市场营销领域，支持营运总裁在市场拓展及营销管理上的工作，戴先生2004年入职本集团，先后在销售、生产营运部门担任职务，对我们的内部营运及服务的市场都非常熟悉，相信加强对销售模块的人才投入，将为集团的发展提供更为理想的营销人才基础。

秉承服务高端包装市场，为全球领先的食物、饮料、医药、医疗、家庭和个人护理的包装开发和提供包装解决方案，通过专注于我们的战略和我们客户的独特价值主张，集团期望继续增长，为股东和其他利益相关者带来回报，不断改善、不断提升、勇创优秀的未来。

集团在中国广东佛山开发的商业载体项目“港金大厦”（APEX TOWER）相关建设工作正有序推进中，本年度末建设进度已达主体裙楼层，我们将积极推进建设进度，预计在2020年内取得销售许可，并在2021年完工。

对于本盈利年度分红政策，董事局提议每股普通股分派S\$0.0025元的现金红利。

谢谢！

彭顺铭
执行主席
南方包装集团有限公司

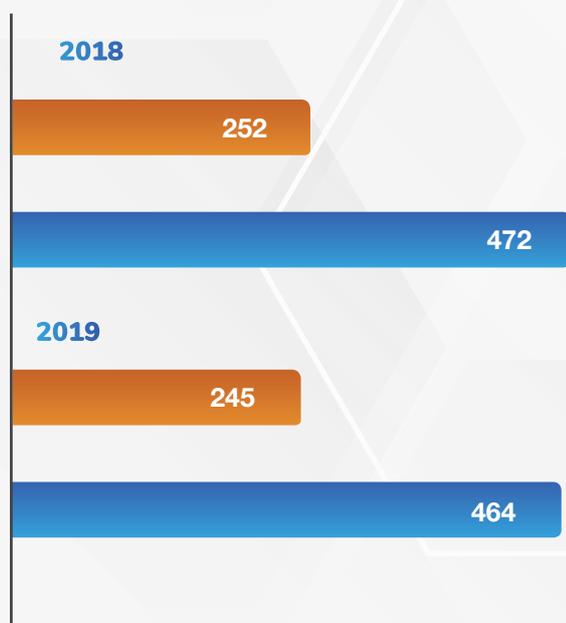


APEX TOWER
(AS AT 23 JAN 2020)

FINANCIAL HIGHLIGHT

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019

SEGMENTAL REVENUE (IN RMB MILLION)



SEGMENTAL GROSS PROFIT (IN RMB MILLION)



 Flexible packaging

 Rigid packaging

12 MONTHS ENDED 31 DECEMBER 2019 (IN RMB MILLION)

	2019	2018
Revenue	709	724
Gross Profit	148	137
Net Profit/(Loss)	9	(2)
Total Assets	1,120	988
Total Liabilities	563	441
Shareholders' Equity	557	547
Cash and cash equivalents	129	79
Earning per share (cents)	13	(3)

OPERATIONS & FINANCIAL REVIEW

The sales revenue decreased by 2.1% to RMB709.1 million in FY2019. Sales of rigid packaging decreased by 1.6% to RMB464.4 million and sales of flexible packaging decreased by 3% to RMB244.7 million in FY2019.

Revenue By Business Segments	FY2019		FY2018		Change
	RMB`000	%	RMB`000	%	
Rigid packaging	464,413	65.5%	471,916	65.2%	-1.6%
Flexible packaging	244,653	34.5%	252,238	34.8%	-3%
Total	709,066	100%	724,154	100%	-2.1%

The gross profit increased by 7.6% to RMB147.7 million. The gross profit of rigid packaging increased by 10.6% to RMB100.3 million. The gross profit of flexible packaging increased by 1.7% to RMB47.4 million. The increase in gross profit is mainly contributed by the following factors:

1. Adjustments to the existing product structure which prioritised high value-added products contributing to higher gross profit margin;
2. Use of automated manufacturing equipment in factories which effectively reduce production costs;
3. Implementation of strict cost control measures in factories.

Gross Profit By Business Segments	FY2019		FY2018		Change
	RMB`000	%	RMB`000	%	
Rigid packaging	100,273	67.9%	90,647	66.1%	10.6%
Flexible packaging	47,387	32.1%	46,579	33.9%	1.7%
Total	147,660	100%	137,226	100%	7.6%

In terms of sales revenue by geographical regions, PRC region sales revenue decreased by 2.6% to RMB671.5 million in FY2019, accounting for 94.7% of Group's total revenue for FY2019. Revenue from other regions increased slightly.

Revenue By Geographical Segment	FY2019		FY2018		Change
	RMB`000	%	RMB`000	%	
PRC	671,528	94.7%	689,200	95.2%	-2.6%
United States	4,709	0.7%	4,900	0.7%	-3.9%
Europe	3,401	0.5%	3,231	0.4%	5.3%
Australia	11,021	1.6%	11,573	1.6%	-4.8%
Others	18,407	2.5%	15,250	2.1%	20.7%
Total	709,066	100%	724,154	100%	-2.1%

营运及财务回顾

2019年度集团销售收入7.09亿，同比轻微下降2.1%，基本保持了市场份额。其中，硬包装销售收入下降了1.6%至4.64亿，软包装销售收入下降了3%至2.45亿。

销售额类别	FY2019		FY2018		变化
	RMB`000	%	RMB`000	%	
硬包装	464,413	65.5%	471,916	65.2%	-1.6%
软包装	244,653	34.5%	252,238	34.8%	-3%
合计	709,066	100%	724,154	100%	-2.1%

今年，集团的毛利为1.48亿，同比上涨7.6%。其中硬包装毛利1亿，同比上涨10.6%；软包装毛利为0.47亿，同比上涨1.7%。毛利上涨的主要原因是产品结构的优化及通过制造过程的自动化、智能化的技术投入，降低了制造成本。

毛利类别	FY2019		FY2018		变化
	RMB`000	%	RMB`000	%	
硬包装	100,273	67.9%	90,647	66.1%	10.6%
软包装	47,387	32.1%	46,579	33.9%	1.7%
合计	147,660	100%	137,226	100%	7.6%

从区域销售情况来看，区域销售占比变化不大，中国区的销售收入下降2.6%，其销售额达人民币6.7亿元，占销售总额的94.7%，仍为集团的主要服务市场所在。

销售额地区	FY2019		FY2018		变化
	RMB`000	%	RMB`000	%	
中国	671,528	94.7%	689,200	95.2%	-2.6%
美国	4,709	0.7%	4,900	0.7%	-3.9%
欧洲	3,401	0.5%	3,231	0.4%	5.3%
澳洲	11,021	1.6%	11,573	1.6%	-4.8%
其它	18,407	2.5%	15,250	2.1%	20.7%
合计	709,066	100%	724,154	100%	-2.1%

BOARD OF DIRECTORS



Pan Shun Ming

Executive Chairman and Chief Executive Officer

Mr. Pan is our Executive Chairman, Chief Executive Officer and the co-founder of our Group. He is responsible for our Group's overall business strategies and policies. He has more than 30 years of experience in the packaging industry. In November 2000, Mr. Pan was appointed as the Vice Chairman of the Nanhai Printing and Packaging Association. On 15 March 2001, Mr. Pan was also appointed as the Foreign Investment Consultant of the Nanhai People's Government. In recognition of his entrepreneurship and management ability, Mr. Pan served as a council member to PRC's National Entrepreneur Association in April 2000.



Chen Xiang Zhi

Executive Director and Vice Chairman

Mr. Chen, the Executive Director and Vice Chairman, joined our Group on 26 January 2010. He is responsible for assisting the Chairman and CEO for the development of the Group's business strategies and policies. Mr. Chen has more than 20 years of experience in large-scale enterprise management and is very experienced and good at capital operations. He joined Guangzhou Wanglaoji Pharmaceutical Company Limited as the Chairman & General Manager in 1998 and then Guangzhou Pharmaceutical Holdings Limited, a public listed company in China, as Managing Director in 2000. He was appointed as the Managing Director of Guangzhou Baiyunshan Pharmaceutical Co., Ltd, also a listed company in China in 2001. Mr. Chen was then appointed as the Deputy Managing Director of Guangzhou Light Industry & Trade Group Ltd; Chairman of Guangzhou Lonkey Co., Ltd (a listed company in China); Vice Chairman of MeadJohnson Nutrition (China) Co., Ltd, as well as Vice Chairman of Guangzhou Pacific Tinplate Co., Ltd. since 2004.



Yeung Koon Sang @ David Yeung

Lead Independent Director

Mr. Yeung was appointed as an Independent Director of our Company in September 2004. He is the managing director of Kreston David Yeung PAC, which he founded in 1987. He has over 30 years' experience in public accountancy and had worked previously with Deloitte & Touché, UK and Ernst & Young, Singapore. He was conferred the Public Service Medal by the President of the Republic of Singapore in 2001. Mr. Yeung holds a Master of Social Science (Accounting) degree from the University of Birmingham, England. He is also a practising member of the Institute of Singapore Chartered Accountants and a fellow of the Association of Chartered Certified Accountants, United Kingdom.

BOARD OF DIRECTORS

Chia Chor Leong

Independent Director



Mr Chia was appointed as an Independent Director of our Company in October 2014. Mr Chia obtained an LL.B. (Honours) degree from the University of Singapore in 1980 and was admitted as an advocate and solicitor of the Supreme Court of Singapore in 1981. He has been in private legal practice since 1981, and now practises mostly as an arbitrator, adjudicator, mediator, legal assessor and neutral evaluator. Mr Chia was formerly the Chairman of the Criminal Law Advisory Committee (Review) and a member of the Singapore Road Safety Council. He presently serves as the Chairman of the External Placement Review Board and as a member of the Independent Review Panel of the Ministry of Home Affairs, Singapore. In recognition of his voluntary public service over the years since 1987, Mr Chia was awarded the Pingat Bakti Masyarakat (Public Service Medal) in 2000 and the Bintang Bakti Masyarakat (Public Service Star) in 2007.

Chung Tang Fong

Independent Director



Dr Chung was appointed as an Independent Director of our Company in May 2014. He was one of the founders of the NUS Business School Mandarin Alumni and serviced as the President from 2008 to 2012 and was awarded the "Eminent Business Alumni Award" in 2012. Dr Chung holds a Bachelor of Arts from Ottawa University, a Master of Business from Curtin University, a Master in Public Administration & Management from National University of Singapore, a Doctor of Business Administration from Victoria University, a Post-Doctoral Professional Studies with Harper Adams University, and a Research Scholar with the School of Economics at Peking University. He was admitted as a Fellow of the Chartered Management Institute, UK., Fellow of the Australian Institute of Management, Victoria, Australia, Dr Chung is an active community leader. He is appointed as a Licensed Solemniser cum Deputy Registrar of Marriages, a Town Councillor of Jurong-Clementi Town Council and Chairman of its Tenders and Contracts Committee. He is also a Board Member of Keming Primary School Advisory Committee and Honorary President of the Singapore Chung Hwa Medical Institution. He was appointed as a District Councillor of South West CDC for more than a decade. In recognition of his public service, Dr Chung was awarded the Pingat Bakti Masyarakat (Public Service Medal) in 2004 and the Bintang Bakti Masyarakat (Public Service Star) in 2008 by the President of Singapore. In addition, Dr Chung was sanctioned admission as Member of the Order of St. John (SBStJ) by Her Majesty The Queen of United Kingdom in 2018.

KEY MANAGEMENT

Pu Jinbo

Deputy Chief Executive Officer

Mr. Pu, our Deputy Chief Executive Officer, joined our Group in 1999. He is currently responsible for the overall investment strategies of the Group. Mr. Pu has more than 15 years of experience in food industry. He graduated with a Diploma from Guangdong No.2 Polytechnic in 1984 and holds an EMBA degree from the National University of Singapore. After graduating in 1984, Mr. Pu joined Guangzhou Friendship Food Company and served there until 1997, when he was the Assistant General Manager. Mr. Pu was awarded the title Assistant Economist by Guangzhou Business Department Titles Amendment Group in July 1993.

Li Yonghua

Chief Operating Officer

Mr. Li Yonghua, the Chief Operating Officer, joined our Group in 2002. He is currently responsible for the operation of the Group and oversees day to day business operations of the Group (sales, marketing, business development and etc). Mr. Li holds a MBA degree from Hong Kong University of Science and Technology. He was Account Manager in Rexam Derkwei Industrial (Shenzhen) Co. Ltd from 1999 to 2001 before he joined Foshan Southern Packaging in December 2002 as Sales Manager. He was promoted as Assistant to the President in 2004 and then Deputy General Manager in July 2006, mainly responsible for sales and marketing. Mr. Li was then appointed as General Manager of Foshan Southern Packaging in the end of 2007.

Mai Shuying

Chief Financial Officer

Madam Mai is our Chief Financial Officer and the co-founder of our Group. Madam Mai founded our Group together with Mr. Pan in the early 1980s. She is in-charge of our Group's finance department and is responsible in managing financial matters, in particular, overseeing the fund disbursement and administrative matters. Mr. Pan Shun Ming and Madam Mai Shuying are spouses.

Zhang Jian Ling

Chief Investment Officer

Ms. Zhang Jian Ling joined the Group in April 1993. She is responsible for import of equipment and materials and export of packaging products as well as corporate expansion and investment projects. Ms. Zhang holds a Bachelor of Science from the Southern China Technological University. After graduating in 1988, she joined the Nanhai Guicheng Light Chemical Industry Development Department of the Guicheng Economic Development Group and assisted in the establishment of Sino-Foreign joint ventures and corporate secretarial matters. She was transferred to Nanhai Zhujiang Packaging & Printing Co., Ltd in 1990.



KEY MANAGEMENT

Pan Zhaojin

Vice President (Property Development)

Mr Pan Zhaojin joined our Group in 2007. He is our Vice President (Property Development) responsible for overseeing and responsible for the property development activities of the Group's property investment. Mr. Pan holds an IMBA degree from Sun Yat Sen University. He first joined the Company as a CEO assistant in 2007 and was promoted as Vice General Manager in 2009, mainly responsible for Human Resource Management and R&D department. He was our Deputy Chief Operating Officer from February 2017 until October 2019 responsible for marketing and business development for the Group's packaging business.

Dai Wei Hong

Vice President (Packaging Development)

Mr Dai Wei Hong joined the Group in 2004. He is responsible for sales business and marketing. He was the Sales Manager, General Manager Assistant of Foshan Southern Packaging Co., Ltd, the General Manager of Southern Packaging (Jiangsu) Co., Ltd. Mr Dai has been working in the Group for 15 years, with rich experience in marketing and production operation management, unique insights in business development and marketing development. Mr Dai holds a Bachelor of Science from South China University of Technology. He has the Chief Quality Officer Certificate of Jiangsu Province.

Lao Jing Wen

Financial Controller

Ms Lao Jing Wen joined the Group in August 2011. She is responsible for overseeing the financial reporting and accounting functions of the Group and subsidiaries of the Group. She is a Certified Practising Accountant of Australia. Ms Lao received a Bachelor of Science from GuangDong University of Technology in 1987, and then she obtained a Diploma in accounting from Macquarie University in Australia in 1996. She has more than 15 years of experience in accounting and audit firm. She joined Zhou Xin Accounting Firm Ltd as a tax consultant in 1999 and responsible for preparing tax return and providing tax advises for her clients. Before joining the Southern Packaging Group, she held a position as audit manager in Katax C.P.A Limited (HongKong) for 5 years.



CORPORATE GOVERNANCE REPORT

The Board of Directors (the “**Board**”) of Southern Packaging Group Limited (the “**Company**” and together with its subsidiaries, the “**Group**”), is committed to setting and maintaining high standards of corporate governance and places importance on its corporate governance processes and systems so as to ensure greater transparency, accountability and protect and enhance long-term shareholder value.

This report outlines the Company’s corporate governance practices that were in place during financial year ended 31 December 2019 (“**FY2019**”) with specific reference to Principles and Provisions of the Code of Corporate Governance (the “**Code**”) issued by the Monetary Authority of Singapore on 6 August 2018.

The Company is required under Rule 710 of the Listing Manual of the Singapore Exchange Securities Trading Limited (“**SGX-ST**”) to describe in this Annual Report its corporate governance practices with reference to both the Principles and Provisions of the Code and how the Company’s practices conform to the Principles of the Code. Compliance with, and observation of, the Principles is mandatory and variations from Provisions are explained appropriately in this Annual Report.

BOARD MATTERS

The Board’s Conduct of Affairs

Principle 1 **The company is headed by an effective Board which is collectively responsible and works with Management for the long-term success of the company.**

Role of the Board

The Board is entrusted with and has the responsibility for the overall management of the Group. It establishes the corporate strategies of the Group, sets direction and goals for the executive management. It supervises the executive management and monitors performance of these goals to enhance shareholders’ value. The Board is responsible for the overall corporate governance of the Group to ensure the Group’s strategies are in the interests of the Group and its shareholders.

The principal functions of the Board apart from its statutory responsibilities are:

- (a) to provide entrepreneurial leadership; approve the strategic objectives, corporate policies and authorisation matrix of the Company; and ensure that the necessary financial and human resources are in place for the Company to meet its objectives;
- (b) to oversee the processes for risk management, financial reporting and compliance and evaluate the adequacy of internal controls; approve annual budget, key operational matters, major acquisition and divestment proposals, major funding proposals of the Company;
- (c) to assume responsibility for corporate governance framework of the Company and establish a framework of prudent and effective controls which enables risks to be assessed and managed, including safeguarding of shareholders’ interests and company’s assets;
- (d) to monitor and review management performance;
- (e) to identify the key stakeholder groups and recognise that their perceptions affect the Company’s reputation;

CORPORATE GOVERNANCE REPORT

- (f) to set values and standards (including ethical standards) of the Company and ensure that obligations to shareholders and others are understood and met; and
- (g) to promote corporate social responsibilities throughout the Group and include environmental and social factors as part of its strategic formulation.

Directors understand their duties at law (including their roles as executive, non-executive and independent directors), which includes acting in good faith and in the best interests of the company; exercising due care, skills and diligence; and avoiding conflicts of interest. The Board adopted a set of ethical values and standards which establishes the fundamental principles of professional and ethical conduct expected of the Directors in the performance of their duties.

Conflict of Interest

To address and manage possible conflicts of interest that may arise between Directors' interest and those of the Group, the Company has put in place appropriate procedures which apply in addition to the Directors' obligation to comply with disclosure obligations under the Company's Constitution and Companies Act (Chapter 50) of Singapore ("**Companies Act**"). Each Director is required to promptly disclose any conflicts or potential conflicts of interest, whether direct or indirect, in relation to any transaction or matter discussed and contemplated by the Group. The disclosure is made either during a Directors' meeting or by way of a written notification to the Company Secretary containing details of the interest and the nature of conflict. Where a potential conflict of interest arises, the Director concerned will recuse himself/herself from participating in any discussions, abstains from voting on the matter and refrains from exercising any influence over other members of the Board.

Matters reserved for the Board's decisions

The Company has in place a limitation and authorisation policy. The policy contains materiality threshold(s) and a schedule of matters specifically reserved for the Board's approval. Below the Board's level, there are appropriate delegations of authority at the senior management level, to facilitate operational efficiency.

Matters and transactions that require the Board's approval include, amongst others, the following:

- the Group's long term objectives and commercial strategy;
- the making of any decision to cease, to operate all or any material part of the business of the Group or to venture into new business;
- merger and amalgamation initiatives;
- changes in capital structure;
- acquisition or divestment of any investment and asset by the Company or any of its subsidiaries;
- approval of financial results announcements, Annual Reports, sustainability reports and Audited Financial Statements;
- recommendation or declaration of dividend;
- annual forecasts, budgets and cash flow projections;
- appointment of new director (with recommendation made by the Nominating Committee ("**NC**")) and the appointment or removal of the Company Secretary;

CORPORATE GOVERNANCE REPORT

- business practices and risk management of the Group;
- in the case of any conflict of interests which the Board, after being appropriately advised, considers to be material, as to whether such conflict should be authorised and, if so, authorise such conflict upon such terms and conditions as the Board considers appropriate;
- remuneration packages for Executive Directors and key management personnel; and
- any matter required to be considered or approved by the Board as a matter of law or regulation.

Board induction and training

There was no new Director appointed in FY2019. All newly appointed Directors would receive a formal letter of appointment setting out the Director's duties, responsibilities and obligations as a Director including pertinent obligations under the Companies Act, the Securities and Future Act, Listing Rules and the Code.

The Board recognises the importance of appropriate training for its Directors. The NC will ensure that any newly appointed Director who has no prior experience as a director of an issuer listed on the SGX-ST, to undergo mandatory training as prescribed by the SGX-ST. The Company will arrange an orientation program (including onsite visits, if necessary) to new Directors to enable them to familiarise themselves with the Group's business and governance practices. They will also be briefed of the relevant regulations, shares dealing policy of the Company, their notification obligations under the Companies Act (Chapter 50) and Securities and Futures Act. The Directors will be given access to the Board resources, including the Company's constitutional and governing documents, board and each Board Committee's terms of reference, annual reports, board meeting papers and other pertinent information for his/her reference.

The Company does not have a formal training program for the Directors. Training and professional needs of any director is addressed on an ad-hoc basis. Directors are informed and encouraged to attend seminars, conference and training courses at the Company's expenses that will assist them in developing their skills and knowledge, executing their obligations to the Company and effectively discharge their duties as directors. During FY2019, the Company held site visits for the Directors to the Company's corporate office, during which they received updates and information in relation to the Group's businesses, production facilities, commercial risks faced by the Group, industry developments and business initiatives. The Audit Committee ("**AC**") and the Board had in the meetings held during FY2019 received briefings and updates on (a) developments in accounting and governance standards, in particular, changes of the Singapore Financial Reporting Standards (International), and accounting standards relevant to the Group by the external auditors, BDO LLP; (b) amendments to SGX-ST Listing Manual and the Code from the Company Secretary; (c) strategic and business developments from the Executive Directors. The Directors can also request for further explanations, briefings or information on any aspects of the Company's operations and business issues from Management.

Updates on the relevant legal, regulatory and technical developments may be in writing or disseminated by way of briefings, presentations and/or handouts on a timely basis. Where necessary, the Company arranges for presentations by external professionals, consultants and advisers on topics that would have an impact on the relevant regulations, accounting standards, and the implications on responsibilities of the Directors.

CORPORATE GOVERNANCE REPORT

Delegation by the Board

The Board is supported by three (3) Board Committees to assist the Board in discharging its responsibilities and to enhance the Group's corporate governance framework. The Board Committees include the AC, NC and Remuneration Committee ("RC") (collectively, the "Board Committees"). Each Board Committee is chaired by an Independent Non-Executive Director. These committees' function within clearly defined terms of references setting out the composition, authorities and duties, required quorum, conduct of meetings and accountability, which are reviewed on a regular basis.

The Board accepts that while these Board Committees have the authority to examine particular issues and will report back to the Board with their decisions and/or recommendations, the ultimate responsibility on all matters lies with the Board.

The names of the members, principal roles and responsibilities of respective Board Committees are set out in this Report.

Meetings and attendance

The full Board meets on a regular basis and as and when necessary to address any specific significant matters that may arise. To ensure meetings are held regularly with maximum Directors' participation, the Company's Constitution allows a Director to participate at Board meetings by telephone or video-conference or other similar communication equipment which will permit all persons participating in the meeting to communicate with each other simultaneously and instantaneously. Dates of the Board meetings, Board Committees meetings and annual general meetings are scheduled in advance in consultation with all of the Directors. The Board and Board Committees also approve transactions by way of written resolutions, which are circulated to the Board and Committee members together with all relevant information regarding the proposed resolutions/transactions.

Details of the Directors' attendance at Board and Committee meetings as well as at the AGM held during FY2019 are as follows:

	Board	AC	NC	RC	AGM
No. of meetings held	5	5	1	1	1
Number of meetings attended					
Pan Shun Ming	5	5 ⁽¹⁾	1 ⁽¹⁾	1 ⁽¹⁾	1
Chen Xiang Zhi	5	5 ⁽¹⁾	1 ⁽¹⁾	1 ⁽¹⁾	1
Pu Jinbo ⁽²⁾	4	4 ⁽¹⁾	1 ⁽¹⁾	1 ⁽¹⁾	1
Mai Shuying ⁽²⁾	3	3 ⁽¹⁾	1 ⁽¹⁾	1 ⁽¹⁾	0
Li Yonghua ⁽²⁾	4	4 ⁽¹⁾	1 ⁽¹⁾	1 ⁽¹⁾	1
Yeung Koon Sang @ David Yeung	5	5	1	1	1
Chung Tang Fong	5	5	1	1	1
Chia Chor Leong	4	4	1	1	1
Tan Jiansheng ⁽³⁾	4	4	1	1	1
Guo Weihai ⁽³⁾	4	4	1	1	1

CORPORATE GOVERNANCE REPORT

Notes:

- ⁽¹⁾ Attended as an invitee.
- ⁽²⁾ Resigned as Executive Director on 30 August 2019.
- ⁽³⁾ Resigned as Independent Non-Executive Director on 30 August 2019.

Access to complete, adequate and timely information

Management ensures that all Directors are furnished on an on-going basis with relevant, complete, adequate and timely information concerning the Company, to enable them to make informed decisions and discharge their duties and responsibilities.

Prior to each meeting, board papers and files are circulated for each meeting and the Board is provided with relevant background or explanatory information relating to the business of the meeting and information on major operational, financial and corporate issues. This is to give the Directors sufficient time to review and consider the matters being tabled and/or discussed. Any other matters may also be tabled at the Board meeting and discussed without papers being distributed. The business/projects updates with information on financial, operating and corporate issues, the explanations on the financial information, and the rationale for the key decisions taken by the Management may also be made in the form of presentations by the Management in attendance at the meetings. The Directors are entitled to request additional information as needed to make informed decisions. Management is invited to attend Board meetings to provide additional insights into matters being discussed, and to respond to any queries that the Directors may have.

The Board members have separate and independent access to Management, who will provide additional information as may be needed by the Board to make informed decisions in a timely manner. The Board members also have separate and independent access to the Company Secretaries. The Board, either individually or as a group, is entitled to seek appropriate independent and professional advice, as and when necessary, at the expense of the Company, in furtherance of their duties.

The role of the Company Secretaries is clearly defined and includes responsibility for ensuring that board procedures are followed and that applicable rules and regulations are complied with. Under the Chairman's direction, the Company Secretaries will ensure good information flow within the Board and the Board committees and between Management and non-executive Directors and advising the Board on all governance matters. The Company Secretaries and/or her representative are/is present at all meetings of the Board and Board committees to record the proceedings. The appointment and removal of the Company Secretary is a matter for consideration by the Board as a whole.

Board Composition and Guidance

Principle 2 The Board has an appropriate level of independence and diversity of thought and background in its composition to enable it to make decision in the best interests of the Company.

As at the date of this Report, the Board comprises the following members:

1. Pan Shun Ming (“**Mr Pan**”) (Executive Chairman and Chief Executive Officer (“**CEO**”))
2. Chen Xiang Zhi (Executive Director and Vice Chairman)
3. Yeung Koon Sang @ David Yeung (“**Mr David Yeung**”) (Lead Independent Director)
4. Chung Tang Fong (“**Dr Chung**”) (Independent Director)
5. Chia Chor Leong (“**Mr Chia**”) (Independent Director)

CORPORATE GOVERNANCE REPORT

The current Board comprises five (5) Directors, three (3) of whom are Independent Directors and Mr David Yeung is the Lead Independent Director of the Company. There is a good balance between the Executive and Non-Executive Directors as well as strong independent element on the Board with Independent Directors making up majority of the Board. The Company complies with Provision 2.2 of the Code which provides that independent directors to make up a majority of the Board as the Chairman of the Board is not an independent director and Provision 2.3 of the Code which provides that non-executive directors to make up a majority of the Board.

Review of Directors' independence

The Board considers an "independent Director" as one who is independent in conduct, character and judgement, and has no relationship with the Company, its related corporations, its substantial shareholders or its officers that could interfere, or be reasonably perceived to interfere, with the exercise of the director's independent business judgement in the best interests of the Company.

The independence of each Director is reviewed annually by the NC bearing in mind the SGX-ST Listing Manual, the Code as well as other relevant circumstances and facts. The NC is also committed to reassess the independence of each Independent Director as and when warranted.

To facilitate the NC in its review of the independent status of the Directors, each Independent Director will confirm his independence by completing a Confirmation of Independence Form which is drawn up in accordance with the SGX-ST Listing Manual, Provision 2.1 of the Code, and Practice Guidance to the Code, and submitted to the NC for its assessment of the independence of each Director. The Executive Directors are considered non-independent.

Based on the confirmation of independence submitted by Mr David Yeung, Mr Chia and Dr Chung, the NC was of the view that each Independent Director is independent on the following basis:

- (a) The Independent Directors (i) are not or has not been employed by the Company or any of its related corporations in the current or any of the past three (3) financial years; and (ii) do not have an immediate family member who is employed or has been employed by the Company or any of its related corporations in the current or any of the past three (3) financial years, and whose remuneration is determined by the RC.
- (b) None of the Independent Directors and their immediate family member had in the current or immediate past financial year (i) provided or received payments to and/or from the Group when aggregated over any financial year in excess of S\$50,000 for services other than compensation for board service; or (ii) was a substantial shareholder, partner, executive officer or a director of any organisation which provided or received payments to and/or from the Group when aggregated over any financial year in excess of S\$200,000 for services rendered.
- (c) None of the Independent Directors is directly associated with a substantial shareholder of the Company.

There were no Directors who are deemed independent by the Board, notwithstanding the existence of a relationship as stated in the Code that would otherwise deem him not to be independent.

Each member of the NC and of the Board recused themselves from deliberations in respect of the assessment of his independence.

CORPORATE GOVERNANCE REPORT

In line with Guideline 2.4 of the Code of Corporate Governance 2012, the independence of Mr David Yeung (appointed on 23 September 2004), who has served on the Board beyond nine (9) years from the date of his first appointment, were subject to particularly rigorous review on his independence by NC and members of the Board. Factors that have been taken into consideration include (i) the Independent Director is able to act independently and provides overall guidance to Management at all times; (ii) the considerable amount of experience, required expertise in the relevant industry and wealth of knowledge that the Independent Director brings to the Company; (iii) the qualification and expertise of the Independent Director to provide reasonable checks and balances for the Management to act as safeguard for the protection of the Company's assets and shareholders' interest; (iv) the attendance and participation of the Independent Director in the proceedings and decision making process of the Board and Board Committees meetings; and (v) the Independent Director has provided adequate attention and sufficient time has been devoted to the proceedings and business of the Company.

The NC, with the concurrence of the Board, is of the opinion that Mr David Yeung is objective and independent in expressing his views and in participating deliberations and decision making of the Board and Board Committees. The NC is of the opinion that he continues to exercise strong independent business judgement with a view to the best interests of the Company and shareholders. The independence of Mr David Yeung was not in any way affected by the length of service and the NC is satisfied that he contributed to the Board with his invaluable experience and expertise. Having reviewed the Board composition through the annual Board evaluation, the Board has considered that there is no current need for progressive refreshing of the Board.

Board Size and Composition

The NC and the Board examines the present size and composition of the Board and Board committees, taking into account, inter alia, the scope and nature of the group's business and operations and the benefits of all aspects of diversity, including but not limited to gender, age, and professional experience in order to provide the board access to an appropriate range and balance and mix of skills, knowledge, experience and backgrounds.

The Board's policy with regard to diversity in identifying director nominees is to have an appropriate mix of members with complementary skills, core competencies and experience for the Group such as accounting or finance, business or management experience and industry knowledge for the effective functioning of the Board, regardless of gender. The Board has taken the following steps to maintain or enhance its balance and diversity (a) annual review by the NC to assess if the existing attributes and core competencies of the Directors are complementary to one another and will enhance the efficacy of the Board; and (b) annual evaluation by the Directors of the skill sets the other Directors possess, with a view to understanding the range of expertise which the Board is lacking.

During FY2019, Madam Mai Shuying, the sole female director, had in August 2019 voluntarily resigned as Director and remain with the Company as Chief Financial Officer of the Company. Following her resignation, there is no female director on the Board. While the NC is aware of the merits of gender diversity to the Board composition, the NC notes that it is only one of the many aspects of diversity. While due consideration would be given to female representation on the Board, the NC will continue to make its selection of candidates based on objective criteria which it believes is in the best interests of the Company.

The Board, in concurrence with the NC, is satisfied that the present size of five (5) Directors, age between 57 to 71 and different nationality, (i) is an appropriate size and with its diversified background and experience provides core competencies such as finance, accounting, legal, business management, industry knowledge and strategic planning experience for the effective functioning of the Board and is appropriate for the current scope and nature of the operations of the Company; and (ii) facilitates effective decision making and ensure the balance of power with no individual or group of individuals dominates the Board's decision making process.

The biographies of the Directors are set out in this Annual Report.

CORPORATE GOVERNANCE REPORT

Non-executive Director Meetings in absence of Management

The Board and Management are given opportunities to engage in open and constructive debate for the furtherance of achieving strategic objectives. The Non-Executive Directors may challenge and help develop proposals on strategy, review the performance of and to extend guidance to Management. Well equipped with the expertise, experience and knowledge, the Non-Executive Directors have been actively participating in discussions and decision-making at the Board and the Board Committees' levels, and had open discussions with Management. Where required, the Independent Directors discuss issues via meetings, telephone and electronic devices without the presence of Executive Directors and Management. The Lead Independent Director will provide feedback to the Chairman if it is deemed necessary.

Chairman and Chief Executive Officer

Principle 3 There is a clear division of responsibilities between the leadership of the Board and Management, and no one individual has unfettered powers of decision-making

Role of Chairman and the CEO

The Group's Executive Chairman, Mr Pan, also assumes the role of a CEO. Being the CEO of the Company, Mr Pan oversees the day to day management and operations of the Group and is responsible for setting the Group's overall business strategies and policies, objectives and missions, as well as executing the Board's decision plan and driving the Group's growth and development. Mr Pan has considerable industry experience and has also provided the Group with strong leadership and vision.

As the Executive Chairman of the Company, he is responsible for (i) leading the Board to ensure its effectiveness in all aspects of its role; (ii) establishing the agenda for the Board meetings in consultation with the Company Secretary, ensuring Board meetings are held when necessary, and adequate time is available for discussion of all agenda items, in particular strategic issues; (iii) reviewing the board papers in consultation with Management and ensuring that the Board receives complete, adequate and timely information to enable them to be fully cognisant of the affairs of the Group; (iv) encouraging constructive relations among the Directors and their interactions with Management; (v) promoting a culture of openness and debate at the Board; (vi) facilitating the effective contribution of all directors; and (vii) take a lead role in promoting high standards of corporate governance, with the full support of the Directors, the Company Secretary and Management. At Annual General Meetings of the Company, the Chairman plays a pivotal role in fostering constructive dialogue between the shareholders, the Board and Management.

While the Company has not adopted Provision 3.1 of the Code requires Chairman and CEO to be separate persons, the Board is of the opinion that the present Group structure and business scope does not warrant a meaningful split of the roles of the Chairman and the CEO. The Board viewed that there are sufficient safeguards and checks to ensure that the process of decision making by the Board is independent and based on collective decisions without any individual exercising any considerable concentration of power or influence, which is consistent with the intent of Principle 3 of the Code. There is also a strong independence element with majority of the Board are independent directors and the Board Committees, all comprising Non-Executive Directors, are chaired by independent non-executive Directors. No individual or group of individuals dominates the Board's decision making process.

CORPORATE GOVERNANCE REPORT

Lead Independent Director

In compliance with Provision 3.3 of the Code, as the Chairman is non-independent, the Company has appointed Mr David Yeung as the Lead Independent Director of the Company. As the Lead Independent Director, he serves in a lead capacity to coordinate the activities of the Independent Directors when necessary and appropriate. His responsibilities include carrying out the functions of the Chairman in relation to any matter where it would be inappropriate for the Chairman to serve in such capacity. He will provide feedback of the private discussion between non-executive Directors to the Chairman if it is deemed necessary. Mr David Yeung is available to shareholders where they have concerns and for which contact through the normal channels of communication with the Chairman, the CEO or Management are inappropriate or inadequate.

Board Membership

Principle 4 The Board has a formal and transparent process for the appointment and re-appointment of directors, taking into account the need for progressive renewal of the Board.

As at the date of this Report, the NC comprises the following three (3) members, all of whom including the Chairman are Independent Directors:

Chia Chor Leong (Chairman)

David Yeung (Member)

Chung Tang Fong (Member)

The NC is governed by the NC's Terms of Reference which describes the duties and functions of the NC. The NC's principal functions are as follows:

- (a) identifying, reviewing and recommending candidates for appointments to the Board (including alternate director) and Board committees (excluding the appointment of existing members of the Board to a Board committee);
- (b) reviewing and approving any new employment of related persons and proposed terms of their employment;
- (c) reviewing and recommending candidates to be nominees on the boards and board committees of the listed companies and entities within the Company and its subsidiaries;
- (d) re-nomination of directors for re-election of directors in accordance with the Constitution at each annual general meeting and having regard to the director's contribution and performance (including alternate directors, if applicable);
- (e) determining annually whether or not a director is independent;
- (f) deciding whether or not a director of the Company is able to and has been adequately carrying out his duties and responsibilities, including time and effort contributed to the Company, attendance at meetings of the Board and Board Committees, participation at meetings and contributions of constructive, analytical, independent and well-considered views, and taking into consideration the director's number of listed company board representations and other principal commitments;
- (g) implementing a process for assessing the effectiveness of the Board as a whole and its board committees and for assessing the contribution by the Chairman and each individual director to the effectiveness of the Board;

CORPORATE GOVERNANCE REPORT

- (h) decide how the Board's performance may be evaluated and propose objective performance criteria, as approved by the Board that allows comparison with its industry peers, and address how the Board has enhanced long-term shareholder's value;
- (i) in addition to the relevant performance criteria which the Board may propose, other performance criteria that may be used include the Company's share price performance over a five-year period vis-à-vis the Singapore Straits Times Index and a benchmark index of its industry peers, return on assets, return on equity, return on investment, economic value added and profitability on capital employed;
- (j) reviewing and recommending the training and professional development programmes for the Board;
- (k) recommending to the Board the review of succession plans for Directors, in particular, the Chairman and the CEO;
- (l) recommending the appointment of key management positions, reviewing succession plans for key positions within the Group and overseeing the development of key executives and talented executives within the Group; and
- (m) reviewing and assessing from time to time whether any director or any person involved in the day-to-day management of the Group is related to, or is appointed pursuant to an agreement or arrangement with, a Controlling Shareholder and/or its Associates.

During FY2019, the NC held one (1) meeting and had on various occasions used resolutions in writing to resolve certain decisions which are then recommended to the Board.

Process of Selection, Appointment and Re-appointment of Directors

The Company has in place procedures for the appointment of new Directors to the Board, including a search and nomination process.

There was no additional director appointed during the year. The NC reviews the need for appointment of additional director(s) and the composition of the Board, including the mix of expertise, skills, knowledge, so as to identify desired competencies to complement and strengthen the Board and increase its diversity.

The search for a suitable candidate is drawn from the network of contacts or approach relevant institutions such as the SID, professional organisations or business federations. Potential candidate is identified based on the needs of relevant skills, experience, knowledge, diversity and expertise. Existing Directors may also put forward names of potential candidates, together with their curriculum vitae, for the NC's consideration. The NC, after completing its assessment, meets with the short-listed candidates to assess their suitability taking into consideration the existing composition of the Board and strives to ensure that the Board has an appropriate balance of independent directors as well as background, qualification and experience of each candidate and other factors such as age and gender that would contribute to the Board's collective skills and expertise, his/her ability to increase the effectiveness of the Board and to add value to the Group's business in line with its strategic objectives and to ensure that the candidates are aware of the expectations and the level of commitment required of them. The NC makes recommendations to the Board for approval via Circular Resolutions or in board meeting.

CORPORATE GOVERNANCE REPORT

The NC recommends re-elections of Directors for approval by the Board, taking into account the Directors' overall contributions and performance and an appropriate mix of core competencies for the Board to fulfill its roles and responsibilities. The Company's Constitution requires that one-third (1/3) of the Directors for the time being (or, if their number is not a multiple of three (3), the number nearest to but not less than one-third (1/3) with a minimum of one (1)) shall retire from office by rotation and that all Directors shall retire from office at least once every three (3) years. A retiring Director shall be eligible for re-election. Any person appointed by the Directors either to fill a casual vacancy or as an additional director during the year will hold office only until the next Annual General Meeting ("**AGM**") and will be eligible for re-election but shall not be taken into account in determining the number of directors retiring by rotation at such meeting.

The NC has recommended to the Board that Mr Pan and Dr Chung be nominated for re-election at the forthcoming AGM of the Company. In evaluating each Director's contributions and performance for the purpose of re-nomination, the NC and the Board has considered the said Directors' overall competencies, commitment, experience, contributions, performance and other factors such as attendance, preparedness, participation, independence and candour are taken into consideration. The Board recommends the shareholders to approve the re-election of the said Directors. The details of the proposed resolutions are stipulated in the Notice of AGM and additional information of the retiring directors as set out in Appendix 7.4.1. to the Listing Manual pursuant to Rule 720(6) of the Listing Manual is enclosed under section titled "Additional Information of Directors Seeking Re-election" in this Annual Report.

The Board recognises the contributions of its Directors who over time have developed deep insight into the Group's operations and industry and who are therefore able to provide valuable contributions to the Group. As such, the Board has not set a fixed term of office for any of its Directors.

Independence of Directors

As mentioned under Principle 2 above, the NC also reviews the independence of the Directors annually and have affirmed that Mr David Yeung, Mr Chia and Dr Chung are independent and are able to exercise judgement on the corporate affairs of the Group independent of the Management.

Multiple Directorship

All Directors declare their board memberships as and when practicable.

During FY2019, the NC has ascertained that all Directors, including those who have other listed company board representations and/or principal commitments, have devoted sufficient time and attention to the Group's affairs and have discharged their duties and responsibilities adequately. The Board and NC take into account the Directors' actual conduct on the Board, in making this determination. As time requirements of each director are subjective, the Board and NC have decided not to fix a maximum limit on the number of directorships a director can hold. The Board and NC consider that the multiple board representations held presently by its Directors do not impede their respective performance in carrying out their duties to the Company. The NC is also of the view that its assessment of a Director's ability to devote sufficient time to the discharge of his or her duties should not entail a restriction on the number of other board commitments or their other principal commitments.

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The listed company directorships and principal commitments of each Director are set out below:

Director	Position	Present directorship in other listed companies	Present principal commitments*
Pan Shun Ming	Executive Chairman and CEO	Nil	<ul style="list-style-type: none"> ● Foshan Energetic Film Co., Ltd ● Foshan Jia Xun Real Estate Co., Ltd ● Guangdong Donald Food Co., Ltd ● Guangdong Xinghua Health Drinks Co., Ltd ● Energetic Holdings Limited ● Striving Asset Management Co., Ltd ● Foshan Jia Bang Real Estate Co., Ltd ● Thrive United Holdings Ltd ● Cappella Holding Pte. Ltd ● Foshan Jia Yu Corporate Advisory Co., Ltd ● Nanhai 4 Pte. Ltd ● NH Assets Pte. Ltd ● Shan Shine Asset Management Co., Ltd ● Stable Growth Investment Co., Ltd ● Foshan Shan Shine Corporate Advisory Co., Ltd ● Foshan Ying Feng Real Estate Co, Ltd <p><u>Subsidiaries of Company</u></p> <ul style="list-style-type: none"> ● Foshan Nanxin Packaging Co., Ltd ● Foshan Southern Packaging Co., Ltd ● Southern Packaging (Jiangsu) Co., Ltd ● Southern (HK) Packaging Co., Ltd

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Director	Position	Present directorship in other listed companies	Present principal commitments*
Chen Xiang Zhi	Executive Director and Vice Chairman	Nil	<ul style="list-style-type: none"> ● Stable Growth Investment Ltd ● Foshan Jia Bang Real Estate Co., Ltd ● Thrive United Holdings Ltd ● Foshan Energetic Film Co., Ltd ● Foshan Shan Shine Corporate Advisory Co., Ltd ● Foshan Ying Feng Real Estate Co, Ltd ● Foshan Jia Yu Corporate Advisory Co., Ltd ● Foshan Jia Bei Le Property Management Co., Ltd
David Yeung	Lead Independent Non-Executive Director	AEI Corporation Limited	<ul style="list-style-type: none"> ● Kreston David Yeung PAC ● Daxin Yeung PAC ● Daxin Consulting (S) Pte Ltd
Chung Tang Fong	Independent Non-Executive Director	Nil	<ul style="list-style-type: none"> ● Xi-Hong Enterprise Pte. Ltd. ● Licensed Solemniser cum Deputy Registrar of Marriages ● Vice Chairman of Jurong-Clementi Town Council and Chairman of its Tenders and Contracts Committee. ● Board Member of Keming Primary School Advisory Committee ● Honorary President of the Singapore Chung Hwa Medical Institution. ● Vice Chairman of Bukit Batok Citizens' Consultative Committee ● Chairman of NUS Lee Kuan Yew School of Public Policy Mandarin Alumni
Chia Chor Leong	Independent Non-Executive Director	Frencken Group Limited	Nil

* "Principle Commitments" as defined in the Code include all commitments which involve significant time commitment such as full time occupation, consultancy work, committee work, non-listed company board representations and directorships and involvement in nonprofit organisations. Where a director sits on the boards of non-active related corporations, those appointments should not normally be considered principal commitments.

CORPORATE GOVERNANCE REPORT

Alternate Director

There is no alternate Director appointed to the Board.

Board Performance

Principle 5 The Board undertakes a formal annual assessment of its effectiveness as a whole, and that of each of its board committees and individual director.

Board, Board Committees and Individual Director Assessments

The Board has established and implemented processes to be carried out by the NC for monitoring and evaluating the performance and effectiveness of the Board as a whole, the Board Committees and contribution of individual directors.

The evaluation of the Board is conducted annually based on objective performance criteria proposed by the NC and approved by the Board. The assessment covers areas such as Board Composition, Board Committee performance and effectiveness, Information to the Board, Board Procedures, Board Accountability, CEO/Top Management, Standards of Conduct, Risk Management and Internal Control and Communication with Shareholders. As part of the process, the Directors will complete appraisal forms which are collated by the Company Secretary. The Company Secretary will then consolidate and present the results of the appraisal to the Chairman of the NC who will then present a report to the Board.

An individual assessment of each Director is also undertaken annually. Assessment parameters for each Director include their knowledge and abilities, attendance records at the meetings of the Board and Board Committees, and the intensity and quality of participation at meetings. The process of the assessment is through self-assessment where each Director will complete appraisal forms which are collated by the Company Secretary. The Company Secretary consolidates the appraisal forms and presents the results to the Chairman of the NC who will then present a report to the Board.

The performance criteria do not change from year to year. Directors can also provide input on issues which do not fall under these categories, for instance, addressing specific areas where improvements can be made. Feedback and comments received from the Directors are reviewed by the NC, in consultation with the Chairman of the Board, to determine the actions required to improve the corporate governance of the Company and effectiveness of the Board as a whole. The Board is of the opinion that a separate assessment on the effectiveness of the Board Committees is not necessary as the Board Committees share common members.

The NC, having reviewed the overall performance of the Board and Board Committees in terms of its role and responsibilities and the conduct of its affairs as a whole for the financial year reported on, is of the view that the performance of the Board as a whole and Board Committees has been satisfactory. The NC, in assessing the contribution of an individual Director, has considered each Director's level of participation and attendance at Board and Board Committee meetings, his or her qualifications, experience, expertise and the time and effort dedicated to the Group's business and affairs. The NC is satisfied that sufficient time and attention has been given to the Group by the Directors. The NC is also satisfied that the current size and composition of the Board provides it with adequate ability to meet the existing scope of needs and the nature of operations of the Group. From time to time, the NC will review the appropriateness of the Board size, taking into consideration changes in the nature of the Group's businesses, the scope of operations, as well as changing regulatory requirements.

Each member of the NC shall abstain from voting on any resolutions in respect of the assessment of his performance for re-nomination as Director.

The Board has not engaged any external consultant to conduct an assessment of the effectiveness of the Board and the contribution by each individual Director to the effectiveness of the Board. Where relevant, the NC will consider such an engagement.

CORPORATE GOVERNANCE REPORT

REMUNERATION MATTERS

Procedures for Developing Remuneration Policies

Principle 6 **The Board has a formal and transparent procedure for developing policies on director and executive remuneration, and for fixing the remuneration packages of individual directors and key management personnel. No director is involved in deciding his or her own remuneration.**

As at the date of this Report, the RC comprises the following three (3) members, all of whom including the Chairman of the RC are Independent Non-Executive Directors:-

David Yeung (Chairman)
Chung Tang Fong (Member)
Chia Chor Leong (Member)

The RC is governed by the RC's Terms of Reference which describes the duties and the powers of the RC. The functions of the RC are:-

- (a) review and approve the framework for determining the remuneration of the executives of the Group, including that of the executive director, CEO and key management personnel;
- (b) review the on-going appropriateness and relevance of the executive remuneration policy and other benefit programs including the terms of renewal for those executive directors whose current employment contracts will expire or had expired;
- (c) consider, review and approve and/or vary (if necessary) the entire specific remuneration package and service contract terms for each member of key management personnel (including salaries, allowances, bonuses, payments, options, benefits in kind, retirement rights, severance packages and service contracts) having regard to the executive remuneration policy for each of the companies within our Group;
- (d) review the Company's obligations arising in the event of termination of the executive directors' and key management personnel's contracts of service, to ensure that such contracts of service contain fair and reasonable termination clauses which are not overly generous;
- (e) consider and approve termination payments, retirement payments, gratuities, ex-gratia payments, severance payments and other similar payments to each member of key management personnel;
- (f) seek expert advice inside the company and/or outside professional advice on remuneration of all directors and to ensure that existing relationships, if any, between the company and its appointed consultants will not affect the independence and objectivity of the consultants;
- (g) determine, review and approve the design of all option plans, stock plans and/or other equity based plans that the Group proposes to implement, to determine each year whether awards will be made under such plans, to review and approve each award as well as the total proposed awards under each plan in accordance with the rules governing each plan and to review, approve and keep under review performance hurdles and/or fulfillment of performance hurdles under such plans;
- (h) approve the remuneration framework (including directors' fees) for the non-executive directors on the relevant boards of directors within the Group; and

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- (i) review the remuneration of employees who are substantial shareholders of the Company, or are immediate family members of a director, CEO or a substantial shareholder of the Company to ensure that their remuneration packages are in line with the staff remuneration guideline and commensurate with their respective job scopes and level of responsibilities.

The RC's recommendations are made in consultation with the Chairman of the Board and submitted to the entire Board for endorsement. All aspects of remuneration, including but not limited to Directors' fees, salaries, allowances, bonuses, share-based incentives and awards, other benefits-in-kind and termination payments shall be overseen by the RC.

In its review, the RC's objective is to establish and maintain a level of remuneration that would be appropriate to attract, retain and motivate the Directors and key management personnel to run the Group successfully. The RC also ensures that the remuneration policies and systems of the Group support the Group's objectives and strategies.

The RC will review the Company's obligations arising in the event of termination of the executive directors and key management personnel's contracts of service, to ensure that such contracts of service contain fair and reasonable termination clauses which are not overly generous and to be fair and avoid rewarding poor performance.

Save for the contributions to defined contribution plans as disclosed in Note 2.6 to the Financial Statements on page 63 of this Annual Report, and the payment in lieu of notice in the event of termination in their respective employment contracts, there are no other termination, retirement and post-employment benefits granted to the Directors, the CEO or any key management personnel.

The RC may from time to time, where necessary or required, seek expert advice from external consultants in framing the remuneration policy and determining the level and mix of remuneration for the Directors and key management personnel, so that the Group remains competitive. During FY2019, no external remuneration consultant has been engaged.

Level and Mix of Remuneration

Principle 7 The level and structure of remuneration of the Board and key management personnel are appropriate and proportionate to the sustained performance and value creation of the Company, taking into account the strategic objectives of the Company.

Remuneration Structure

The RC reviews and recommends to the Board a framework of remuneration for the directors and key management personnel, and determines specific remuneration packages for each executive director and key management personnel. The recommendations of the RC on remuneration of executive directors and key management personnel would be submitted for endorsement by the entire Board. The Company adopts a remuneration policy for Executive Directors and key management personnel consisting of a fixed component and a variable component. The fixed component is in the form of a base / fixed salary and retirement benefits being a certain percentage of the Executive Directors and key management personnel's basic salaries contributed to the retirement benefits scheme pursuant to the relevant regulations of the People's Republic of China government. The variable component is in the form of a variable bonus computed based on the performance of the Group as a whole which is linked to the financial targets set and other aspects of performance, as well as individual performance which are assessed through performance appraisal that sets out various assessment criteria such as level of achievement of targets and responsibilities, leadership ability, initiative, etc, to align with the interests of shareholders and other stakeholders and promotes the long-term success of the Company.

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All aspects of remuneration, including but not limited to directors' fees, salaries, allowances, bonuses, options and benefits in kind are covered by the RC. Each member of the RC shall abstain from voting on any resolution in respect of his remuneration package.

In setting/reviewing the remuneration packages of the Executive Directors and key management personnel, the Company takes into consideration the existing remuneration and employment conditions and makes a comparative study of the packages of executive directors and key management personnel within the industry and benchmarked against comparable companies/industries as well as the individual and the Group's sustainable performance.

The RC ensures that the level and structure of remuneration of the Directors and key management personnel are aligned with the long-term interests and risk policies of the Company, as well as the ability of such remuneration structures to attract, retain and motivate Directors and key management personnel to provide good stewardship and manage the Company for the long term.

The service agreements with respective Executive Directors and key management personnel are renewable in accordance with the specific terms as set out in the service agreements. Any revision or amendments to the service agreements will be firstly proposed to the RC and thereafter, on RC's recommendation to the Board for consideration and approval.

The Company does not make use of contractual provisions to allow the Company to reclaim incentive components of remuneration from Executive Directors and key management personnel in exceptional circumstances of misstatement of financial results, or of misconduct resulting in financial loss to the Company.

Having reviewed and considered the variable components of the Executive Directors and the key management personnel, which are moderate, the RC is of the view that there is no requirement to institute contractual provisions to allow the Company to reclaim incentive components of their remuneration paid in prior years in exceptional circumstances of misstatement of financial results, or of misconduct resulting in financial loss. However, the Company believes that it should be able to avail itself to remedies against these personnel in the event of such breach of fiduciary duties.

There is currently no long-term incentive scheme for the Directors of the Group and there is currently no unexpired share options.

No Director is involved in deciding his own remuneration, except in providing information and documents if required by the RC to assist in its deliberations. Directors' fees are recommended by the Board for approval at the Company's AGM.

Directors' fees

Independent Directors do not have service agreements. The remuneration of Non-Executive Directors are paid a fixed base fee and an additional fixed fee for serving on any of the Board Committees, taking into account factors such as level of contribution, effort, time spent, and responsibilities. The RC recommends the payment of such fees in accordance with the contributions and responsibilities of the Non-Executive Directors, which will then be endorsed by the Board and subject to approval by the shareholders of the Company at the AGM.

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Disclosure on Remuneration

Principle 8 The company is transparent on its remuneration policies, level and mix of remuneration, the procedures for setting remuneration, and the relationship between remuneration, performance and value creation.

Directors' and Key Management Personnel' Remuneration

During FY2019, the RC had reviewed the compensation and remuneration packages of all Directors and key management personnel and believes that the remuneration of Directors and key management personnel commensurate with their respective performance, roles and responsibilities, giving due consideration to the financial and commercial health and business needs of the Company. The RC has recommended to the Board and the Board has approved the remuneration of the Directors and the key management personnel.

The breakdown (in the percentage terms) of the level and mix of Directors' and CEOs' remuneration for FY2019 are as follows:

Name	Salary %	Bonus %	Fringe Benefits %	Directors' Fees %	Total %
Directors					
S\$500,000 to below S\$750,000					
Pan Shun Ming	98.7	0	1.3	–	100
S\$250,000 to below S\$500,000					
Mai Shuying ⁽¹⁾	98.4	0	1.6	–	100
Below S\$250,000					
Chen Xiang Zhi	99.5	0	0.5	–	100
Pu Jinbo ⁽¹⁾	93.7	0	6.3	–	100
Li Yonghua ⁽¹⁾	99.4	0	0.6	–	100
David Yeung	–	–	–	100	100
Chung Tang Fong	–	–	–	100	100
Chia Chor Leong	–	–	–	100	100
Tan Jiansheng ⁽²⁾	–	–	–	100	100
Guo Weihai ⁽²⁾	–	–	–	100	100

Note:

- Resigned as Director on 30 August 2019 but remained as executive officer of the Company.
- Resigned as Director on 30 August 2019.

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The Board has approved the RC's recommendation for the Directors' fees of S\$148,376 for FY2019. The fees are subject to the approval of shareholders at the forthcoming AGM. Executive Directors are not entitled to Directors' fees. The aggregate amount of remuneration paid or payable to the Directors are disclosed under Note 36 to the Financial Statements on page 113 of this Annual Report.

A breakdown of the level and mix of top five (5) key management personnel's (who are not Directors or the CEOs) remuneration for FY2019 are as follows:

Name	Salary %	Bonus %	Fringe Benefits %	Total %
Key Management Personnel				
Below S\$250,000				
Mai Shuying	98.4	0	1.6	100
Li Yonghua	99.4	0	0.6	100
Pan Zhaojin	90.3	0	9.7	100
Zhang Jianling	99.8	0	0.2	100
Lao Jing Wen	99.6	0	0.4	100

Note:

Remuneration of Madam Mai and Mr Li disclosed herein are for the period from 1 September 2019 to 31 December 2019 as both of them resigned as Director on 30 August 2019 and remained as key management of the Company.

The annual aggregate remuneration paid to the top five (5) key management personnel (excluding the Directors and the CEOs) for FY2019 is S\$508,917.

During FY2019, save for Mr Pan, Madam Mai Shuying and Mr Pan Zhaojin (as disclosed below table), (substantial shareholders of the Company), there are no other employees who are substantial shareholders of the Company or are immediate family members of a Director or the CEO or a substantial shareholder of the Company and whose remuneration exceeds S\$100,000 during the financial period under review.

Name	Remuneration Band
Pan Shun Ming	S\$500,000 to below S\$600,000
Mai Shuying	S\$400,000 to below S\$500,000
Pan Zhaojin	S\$100,000 to below S\$200,000

While the Company has not disclosed fully the amount of remuneration of each Director and CEOs under provision 8.1(a) of the Code, the RC and the Board, after careful consideration, are of the view that such disclosures would not be in the best interests to the Group's business given the highly competitive environment it is operating in, and that the details disclosed in the above tables and under Note 36 on page 113 of the Financial Statements provides an appropriate balance between detailed disclosure and confidentiality in the sensitive area of remuneration. The Company has also provided detailed disclosure on its remuneration framework and criteria for setting remuneration under Principle 7: Level and Mix of Remuneration. The Board believes that, taken as a whole, the disclosure provided herein are meaningful and sufficiently transparent in giving an understanding of the remuneration of its Directors and CEOs, consistent with the intent of Principle 8 of the Code.

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ACCOUNTABILITY AND AUDIT

Risk Management and Internal Controls

Principle 9 **The Board is responsible for the governance of risk and ensures that Management maintains a sound system of risk management and internal controls, to safeguard the interests of the Company and shareholders.**

Risk Management and Internal Controls

The Board acknowledges that it is responsible for the governance of risk and the overall internal control framework, but recognises that no internal control system will preclude all errors and irregularities.

Currently, the AC with the assistance of internal and external auditors and Management assumes the responsibility of the risk management function. Management reviews regularly the Group's business and operational activities to identify areas of significant risks as well as appropriate measures to control and mitigate these risks. Management reviews all significant policies and procedures and highlights all significant matters to the Board and the AC. The Board is of the view that in view of the Group's manageable size, a separate risk committee is not required for the time being.

The AC and the Board are responsible to ensure that a review of the adequacy and effectiveness of the Company's internal controls, including financial, operational, compliance and information technology controls and risk management, is conducted annually. In this respect, the AC will review the audit plans, and the findings of the internal audit team and external auditors and report its opinion to the Board, and will ensure that the Company follows up on the auditors' recommendations raised, if any, during the audit process. The Company will continue to make efforts in improving its risk management and internal control systems.

Management reviews the Group's business and operational activities regularly to identify areas of significant risks as well as appropriate measures to control and mitigate these risks. Management will also be responsible for ensuring that the risk management framework is effectively implemented within all areas of the respective operations and to highlight significant matters to the AC and the Board.

On an annual basis, the Company engages independent third party as the internal auditors to formulate an internal audit plan and conduct internal audit reviews of the Group's operations, taking into consideration the risk areas identified which is approved by the AC.

The AC will review annually, the adequacy and effectiveness of the IA function. In FY2019, the AC reviewed the report submitted by the internal auditors relating to the audits conducted to assess the adequacy and the effectiveness of the Group's risk management and the internal control systems put in place, including financial, operational, compliance and information technology controls. Any material noncompliance or lapses in internal controls, together with recommendation for improvement are reported to the AC.

A copy of the report is also issued to the Management for its follow-up action. The timely and proper implementation of all required corrective, preventive or improvement measures are closely monitored. In addition, major control weaknesses on financial reporting identified in the course of the statutory audit, if any, are highlighted by the external auditors to the AC.

The AC and the Board had received assurance from the CEO and the Chief Financial Officer ("CFO"), to the best of their knowledge, the Group's financial records as at 31 December 2019 have been properly maintained and the financial statements for FY2019 give a true and fair view of the Company's operations and finances.

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The AC and the Board had obtained confirmation from the CEO, CFO and Key Management Personnel the Group's risk management and internal control systems are adequate and effective to address financial, operational, compliance and information technology risks which the Group considers relevant and material to its operations.

Based on the work performed by the internal and external auditors, the Group's framework of management control, the review procedures established and maintained by the Company to monitor the key controls and procedures and to ensure their effectiveness, the annual reviews performed by Management and the Board committees, the Board, with the concurrence of the AC, is of the view that for the current size and nature of the Group's operations and business, the Group's framework of internal controls in relation to the financial, operational, compliance and information technology controls and risk management system is adequate to provide reasonable assurance of the integrity and effectiveness of the Company in safeguarding its assets and shareholders' value. Pursuant to 1207(10) of the Listing Manual, the Board is of the opinion that there were no material weaknesses identified by the Board and AC in the Group's internal controls.

An overview of the key risks, the extent of the Group's exposure and the approach to managing these risks are set out on page 107 to 111 of the annual report.

Audit Committee

Principle 10 The Board has an Audit Committee which discharges its duties objectively.

As at the date of this Report, the AC comprises the following three (3) members, all of whom, including the Chairman of the AC, are Non-Executive Independent Directors:-

David Yeung (Chairman)
Chung Tang Fong (Member)
Chia Chor Leong (Member)

None of the AC members (i) were former partners or directors of the Company's existing auditing firm or corporation within the previous two years commencing on the date of their ceasing to be a partner or director of the auditing firm or corporation; and (ii) hold any financial interest in the auditing firm or corporation.

The Board is satisfied and in its business judgement viewed that the AC's composition and members are appropriately qualified to discharge their duties and responsibilities. The AC members have sufficient accounting and/or related financial management expertise and experience, as the Board interprets such qualifications in its business judgements. Notably, Mr David Yeung, the AC Chairman, has extensive and practical accounting and financial management knowledge and had at least 30 years' experience in public accountancy, to be well qualified to chair the AC.

The AC is governed by the AC's Terms of Reference which describes the duties and the powers of the AC. The functions of the AC are as follows:

- (a) assist the Board in the discharge of its responsibilities on financial reporting matters;
- (b) review, with the internal and external auditors, the audit plans, scope of work, their evaluation of the system of internal accounting controls, the management letters and the management's response, and results of audits compiled by the internal and external auditors;

CORPORATE GOVERNANCE REPORT

- (c) review the half-yearly and annual financial statements and results announcements before submission to the Board for approval, focusing in particular, on changes in accounting policies and practices, major risks areas, significant adjustments resulting from the audit, the going concern statement, compliance with financial reporting standards as well as compliance with the Listing Manual and any other statutory/regulatory requirements;
- (d) review the effectiveness and adequacy of the internal control and procedures, including accounting and financial controls and procedures and ensure coordination between the internal and external auditors, and the management, reviewing the assistance given by the management to the auditors, and discuss problems and concern, if any, arising from interim and final audits, and any matters which the auditors may wish to discuss in the absence of the management where necessary;
- (e) review the adequacy and effectiveness of the Group's internal audit function and the scope and results of the external audits as well as the independence and objectivity of the external auditors;
- (f) commission and review an annual internal control audit until such time the AC is satisfied that the Group's internal controls are sufficiently robust and effective enough to mitigate the Group's internal control weaknesses (if any), and prior to the decommissioning of the annual audit, the Board is required to report to the SGX-ST on how the key internal control weaknesses have been rectified, and the basis for the decision to decommission the annual internal controls audit;
- (g) review with external auditors the impact of any new or proposed changes in accounting policies or regulatory requirements on the financial statements of our Group;
- (h) review the co-operation given by the management to the external auditors;
- (i) to meet with the External and Internal Auditors without the presence of the Management at least once a year;
- (j) review and discuss with the external auditors any suspected fraud or irregularity, or suspected infringement of any relevant laws, rules or regulations, which has or is likely to have a material impact on the Group's operating results or financial position, and the management's response and report such matters to the Board at an appropriate time;
- (k) take recommendations to the Board on the proposals to the Shareholders on the appointment, re-appointment and removal of the external auditors, and approving the remuneration and terms of engagement of the external auditors;
- (l) review significant financial reporting issues and judgments with the CFO/Financial Controller and the external auditors so as to ensure the integrity of the financial statements of our Group and any formal announcements relating to the Group's financial performance before submission to the Board of Directors;
- (m) review the adequacy, effectiveness, independence, scope of results of the external audit and the Company's internal audit function;
- (n) review and report to the Board at least annually the adequacy and effectiveness of the Group's material internal controls with the CFO/Financial Controller and the internal and external auditors, including financial, operation, compliance and information technology controls via reviews carried out by the internal auditors;

CORPORATE GOVERNANCE REPORT

- (o) review filings with the SGX-ST or other regulatory bodies which contain the Group's financial statements and ensure proper disclosure;
- (p) review and approve transactions falling within the scope of Chapter 9 and Chapter 10 of the Listing Manual (if any);
- (q) review interested person transactions and any potential conflicts of interests (if any). In particular, the AC will review and assess from time to time whether additional processes are required to be put in place to manage any material conflicts of interest between the Group and the Directors, CEO, Controlling Shareholders and/or their respective Associates and propose, where appropriate, the relevant measures for the management of such conflicts;
- (r) review and approve all hedging policies and instruments (if any) to be implemented by the Group;
- (s) review the assurance from the CEO and CFO on the financial records and financial statements;
- (t) undertake such other reviews and projects as may be requested by the Board and report to the Board its findings from time to time on matters arising and requiring the attention of the Audit Committee;
- (u) review and establish procedures for receipt, retention and treatment of complaints received by the Group;
- (v) propose and establish a "Whistle-blowing policy" and review the procedures by which employees of the Group may, in confidence, report to the chairman of the AC, possible improprieties in matters of financial reporting or other matters and ensure that there are arrangements in place for independent investigation and follow-up actions thereto;
- (w) report to the Board of the Company the work performed by the AC in carrying out its functions; and
- (x) to undertake such other functions and duties as may be required by statute or the Listing Manual, and by such amendments made thereto from time to time.

In line with the terms of reference of the AC, the following activities were carried out by the AC during FY2019 in the discharge of its functions and duties including the deliberation and review of:

- (a) the external audit plan in terms of their scope prior to their commencement;
- (b) the unaudited half-yearly and full year financial results of the Group, and announcements prior to submission to the Board for approval and release of the results via SGXNet;
- (c) the audited financial statements of the Group and the Company prior to submission to the Board for consideration and approval;
- (d) the assurance received from the CEO and CFO on the financial records and financial statements;
- (e) the internal audit findings report including internal control processes and procedures;
- (f) the adequacy and effectiveness of the Group's internal audit function;
- (g) the adequacy and effectiveness of the Company's internal controls, including financial, operational, compliance and information technology controls and reporting the findings to the Board;

CORPORATE GOVERNANCE REPORT

- (h) interested person transactions and any potential conflicts of interests;
- (i) the co-operation and assistance given by Management to the Group's external and internal auditors;
- (j) the independence and re-appointment of the external auditors of the Company and level of audit and non-audit fees, and their recommendation to the Board for approval.

The AC and the Board of Directors, with the assistance of internal and external auditors, reviews the adequacy and effectiveness of the key internal controls, including financial, operational, compliance, information technology controls and risk management systems on an on-going basis. There are formal procedures in place for both the internal and external auditors to report independently their findings and recommendations to the AC.

The AC has the power to conduct or authorise investigations into any matters within the AC's scope of responsibility, such as where there is any suspected fraud or irregularity, or failure of internal controls or infringement of any law, rule or regulation which has or likely to have a material impact on the Group's operating results and/or financial position. The AC is authorised to obtain independent professional advice if it deems necessary in the discharge of its responsibilities. Such expenses are to be borne by the Company.

The AC has full access to and co-operation of the Company's Management and has full discretion to invite any Director or executive officer to attend its meetings, and has been given reasonable resources to enable it to discharge its functions.

Each member of the AC will abstain from voting in respect of matters in which he is interested.

Independence of External Auditors

The aggregate amount of fees paid and/or payable by the Group to BDO LLP for FY2019 is RMB499,342, of which audit fees amounted to RMB484,210 and non-audit fees amounted to RMB15,132.

The AC has reviewed the independence of the external auditors including the range and volume and nature of the non-audit services performed by its external auditors in relation to tax agent and tax compliance services rendered, the AC is satisfied that the nature and extent of such services will not prejudice the independence and objectivity of the external auditors. The AC has recommended the re-appointment of Messrs BDO LLP as external auditors of the Company for financial year ending 31 December 2020 at the forthcoming AGM.

The external auditors have unrestricted access to the AC.

In relation to the external auditors of the Group, the AC is satisfied that the Company has complied with the Rules 712 and 715 of the Listing Manual.

The AC takes measures to keep abreast of the changes to accounting standards and issues which have impact on the Group's financial statements, with training conducted by professionals or external consultants. In FY2019, the AC was briefed and updated by the external auditors on the changes or amendments to the accounting standards and its corresponding impact on the financial statements, if any.

CORPORATE GOVERNANCE REPORT

AC's commentary on key audit matters

In the review of the financial statements for FY2019, the AC has discussed with the Management and the external auditors on significant issues as well as the reasonableness of the key assumptions including significant judgements and key estimates used that impact the financial statements. The most significant matters have also been included in the Independent Auditor's Report to the Members under "Key Audit Matters". Taking into account all instances the views of the external auditors, the AC is assured and concurred with the Management's conclusions and satisfied that these matters have been properly dealt with; and concluded that the Group's accounting treatment and the disclosures in the financial statements were appropriate. The AC has recommended the Board to approve the financial statements.

Whistle-Blowing Policy

The Company has in place a whistle-blowing policy which provides well-defined and accessible channels in the Group through which employees and any other persons may raise concerns, in confidence, on improper conduct or other matters to Management and/or the AC, where applicable. The details of the policy have been disseminated and made available to all parties concerned, including new employees.

The AC would be vested with the power and authority to receive, investigate and enforce appropriate action when any such non-compliance matter is brought to its attention.

Internal Audit

The Company has outsourced the internal audit function to Daxin Guangzhou CPA who will report directly to the AC and administratively to the CEO. The AC approves the hiring, removal, evaluation and compensation of the internal auditors and the internal auditors have unfettered access to all the Company's documents, records, properties and personnel, and reports directly to the AC on audit matters. The AC will review on annual basis the adequacy and effectiveness of the internal audit function.

The AC approved the re-engagement of Daxin Guangzhou CPA to perform a review of the internal controls of the Group in accordance with the Standards for the Professional Practice of Internal Auditing laid down by the International Professional Practices Framework issued by the Institute of Internal Auditors, Inc.

Daxin Guangzhou CPA is a consultancy practice specialising in providing independent assurance services for corporations that require cost-effective and immediate solutions for their governance, risk and internal audit needs such as compliance audit, post-implementation reviews, value for money reviews, due diligence secondment and financial investigations. The engagement team assigned comprises 3 members and the partner-in-charge, Jiang Cuihua, has 12 years of relevant and diverse audit experience. The AC is satisfied that the internal audit function is independent, effective and adequately resourced as it is staffed by suitably qualified and experienced professionals with the relevant experience. The AC has assessed and is satisfied that the IA function of the Group is independent and the internal auditors have adequately resources to perform its function effectively and is staffed by qualified and experienced professionals with the relevant experience. Accordingly, the Company is in compliance with Rule 1207(10C) of the Listing Rules.

Independent meeting with external and internal auditors

The AC has met with the external and internal auditors without presence of the Management at least once a year to ascertain if there are any material weaknesses or control deficiencies in the Group's financial and operating systems. The external auditors were also invited to be presented at AC meetings held during FY2019 to, inter alia, answer or clarify any matter on cooperation from management, accounting and auditing of internal control.

CORPORATE GOVERNANCE REPORT

SHAREHOLDER RIGHTS AND ENGAGEMENT

Shareholder Rights and Conduct of General Meetings

Principle 11 **The Company treats all shareholders fairly and equitably in order to enable them to exercise of shareholders' rights and have the opportunity to communicate their views on matters affecting the Company. The Company gives shareholders a balanced and understandable assessment of its performance, position and prospects.**

Participation of General Meeting

The Company's general meetings are the principal forums for dialogue with shareholders.

The Board supports and encourages shareholders to participate actively in general meetings. At general meetings of the Company, shareholders are given equitably opportunity to participate effectively in and vote at the meeting and express their views/concerns and ask questions regarding the Group's business or performance. Notice of general meetings will be advertised in newspapers and announced on SGXNET. The Directors ensure that the shareholders have the opportunity to participate effectively in and vote at general meetings and shareholders will be well informed of the meeting and voting procedures.

Any notice of general meeting consisting of only ordinary resolution is issued at least fourteen (14) calendar days before the scheduled date of such meeting while a notice of general meeting containing special resolution is issued at least twenty-one (21) calendar days before the scheduled date of the meeting.

At the Company's general meetings, the chairpersons of the AC, NC and RC, majority Directors and Management are normally present and available to address shareholders' questions at general meetings. The external auditors are also invited to attend the AGMs to assist the Directors in addressing shareholders' queries about the conduct of audit and the preparation and contents of the auditors' report. For FY2019, the Company held an annual general meeting. The attendance of Directors for the AGM held on 30 April 2019 is disclosed on page 15 of this Annual Report.

The Company has not amended its Constitution to provide for absentia voting methods. Voting in absentia and by electronic mail may only be possible following careful study to ensure that integrity of the information and authentication of the identity of the shareholders through the web is not compromised.

All shareholders can vote in person or to appoint up to two (2) proxies during his/her absence to attend, vote and speak in general meeting in accordance with the Constitution of the Company. Pursuant to Section 181 of the Companies Act (Chapter 50), notwithstanding the Constitution of the Company, the Company allows and will provide necessary measures to allow corporations which provide nominee or custodial services to appoint more than two (2) proxies so that shareholders who hold shares through such corporations can attend and participate in general meetings as proxies.

Each item of special business included in the notice of the AGM is accompanied by an explanation of the effects of the proposed resolution. At AGMs, the Directors ensure that separate resolutions are set out on distinct issues for approval by shareholders and shareholders are given the opportunity to raise questions and clarify any issues they may have relating to the resolutions to be passed. Pursuant to Rule 730A of the Listing Manual, all proposed resolutions at the Company's general meetings will be conducted by way of poll in the presence of an independent scrutineer. The explanation on polling procedures will be provided to shareholders before the poll voting is conducted. The total number and percentage of valid votes cast for or against each resolution will be announced at the general meeting and also published via SGXNet after the general meeting.

CORPORATE GOVERNANCE REPORT

After a general meeting, the Company Secretary prepares minutes of general meetings that include substantial and relevant comments or queries from shareholders relating to the agenda of the meetings, and responses from the Board and the Management. Once approved by the Board, these minutes are made available to shareholders upon their written request. The Company does not publish minutes of general meetings of shareholders on its corporate website as contemplated by Provision 11.5 of the Code. There are potential adverse implications for the Company if the minutes of general meetings are published to the public at large (outside the confines of a shareholders' meeting), including the risk of disclosure of sensitive information to the Group's competitors. The Company is of the view that its position is consistent with the intent of Principle 11 as shareholders have a right to attend general meetings either in person or by proxy, where they may exercise their right to speak and vote and have the opportunity to communicate their views on various matters affecting the Company. Further, shareholders including those who did not attend the relevant general meeting, have statutory right to be furnished copies of the minutes of general meetings and these minutes would be made available to shareholders upon their written request, in accordance with the Companies Act. The Company is therefore of the view that, consistent with the intent of Principle 11, as between themselves, shareholders are treated fairly and equitably by the Company.

In view of the Covid-19 situation, the Company will be putting in place alternative measures and arrangements for its upcoming AGM. Shareholders are advised to refer to the Company's announcement on SGXNet on the notice of AGM for more information on the AGM.

Dividend Policy

The Company currently does not have a fixed dividend policy. Nonetheless, the Management after reviewing the performance of the Company in the relevant financial period will make appropriate recommendation to the Board. Any dividend recommendation or declaration will be communicated to shareholders via announcement through SGXNET.

The form, frequency and amount of declaration and payment of future dividends on shares of the Company that the Directors may recommend or declare in respect of any particular financial year or period will be subject to the factors outlined below as well as other factors deemed relevant by the Directors:

- the level of cash and retained earnings;
- actual and projected financial performance;
- projected levels of capital expenditure and expansion plans;
- working capital requirements and general financing needs and conditions; and
- restrictions on payment of dividend imposed to the Company (if any).

The Board has recommended a first and final dividend of S\$0.0025 per ordinary share for FY2019 which is subject to shareholders' approval at the Annual General Meeting.

Engagement with Shareholders and Stakeholders

Principle 12 The Company communicates regularly with its shareholders and facilitates the participation of shareholders during general meetings and other dialogues to allow shareholder to communicate their views on various matters affecting the Company.

The Company has put in place an investor relations policy to facilitate fair and effective communication with shareholders. The Company conveys pertinent information to shareholders and complies with the guidelines set out in the Listing Manual when disclosing information. All questions raised by shareholders would be escalated to and addressed by the Senior Management or relevant person-in-charge.

CORPORATE GOVERNANCE REPORT

The Company treats all shareholders fairly and equitably, and recognise, protect and facilitate the exercise of shareholders' right and continually review and update such governance arrangement. In this regard, care is taken to ensure that no market sensitive information such as corporate proposals, financial results and other material information is disseminated to any party without first making an official announcement through SGXNet.

The Group strives for timeliness and transparency in its disclosures to the shareholders and the public. The Company does not practise selective disclosure, and price-sensitive information is publicly released through SGXNet on an immediate basis pursuant to the Listing Manual. Information is disseminated to shareholders on a timely basis through various means of communication such as:

- announcements via SGXNET;
- price sensitive information, significant transactions or matters are communicated to shareholders via SGXNET;
- sustainability report, Annual Reports and notice of general meetings issued to all shareholders; and
- the Company's website at www.southern-packaging.com at which shareholders can access to information on the Group.

The Company solicits feedback from and addresses the concerns of Shareholders (including institutional and retail investors) by email via a dedicated investor relations email: public@southern-packaging.com or in writing to the Company's headquarter located at China or registered office in Singapore. The Company also attends to shareholders' queries made via telephone.

Principle 13 The Board adopts an inclusive approach by considering and balancing the needs and interests of material stakeholders, as part of its overall responsibility to ensure that the best interests of the Company are served.

The Company understands the importance of stakeholder engagement and has been reporting its engagement activities in its annual sustainability report, in accordance with Global Reporting Initiative (GRI) standards – Core option. Key stakeholders have been identified (customers, employees, investors, suppliers, government and regulators), each with their respective engagement channels and key areas of interests that have been made of the Group's priorities. Stakeholders can communicate or write to the Company via its corporate website.

Please refer to the section on Stakeholder Engagement in the Company's Sustainability Report 2019 for more information on how the Company manages its stakeholder relationships.

DEALING IN SECURITIES

In line with Rule 1207(19) of the Listing Manual on dealings in securities, the Company has adopted a policy prohibiting share dealings in its securities by directors and officers of the Group: (i) during the period commencing one (1) month before the announcement of the Company's half/full year financial statements and ending on the date of the announcement of the relevant financial statements; and (ii) any time when in possession of unpublished price-sensitive information relating to the Group. They are prohibited from dealing in the Company's securities on short-term considerations. This has been made known to Directors and officers of the Group. They are also reminded to observe the insider trading laws at all times even when dealing in the Company's securities within permitted trading periods.

CORPORATE GOVERNANCE REPORT

Directors are required to notify the Company of their securities dealings within two (2) business days of such dealings and the Company shall disseminate the notifications received to the market via SGXNET within one (1) business day of receiving such notifications.

MATERIAL CONTRACTS

Save as disclosed in the section entitled “Interested Person Transactions” and the service agreements entered into between the Executive Directors and the Company, there are no other material contracts or loans entered into by or taken up by the Company of its subsidiaries involving the interest of any Director or controlling shareholder which are still subsisting as at the end of FY2019 or if not then subsisting, entered into since the end of previous financial year.

INTERESTED PERSON TRANSACTIONS (“IPTs”)

The Company has established review procedures for IPTs and the reviews to be made periodically by the AC in relation thereto are adequate to ensure that the IPTs will be transacted on normal commercial terms and will not be prejudicial to the interests of the Company and its minority shareholders. In the event that a member of the AC is involved in any IPT, he will abstain from reviewing that particular transaction.

The IPTs of the Group during FY2019 are:-

Name of interested person	Aggregate value of all interested person transactions during the financial year under review (excluding transactions less than S\$100,000 and transactions conducted under shareholders' mandate pursuant to Rule 920) FY2019	Aggregate value of all interested person transactions conducted under shareholders' mandate pursuant to Rule 920 (excluding transactions less than S\$100,000) FY2019
Guangdong Xing Hua Health Drink Co. Ltd ⁽¹⁾	RMB1,832,940 (S\$363,400)	–
Mai Shuying and Pan Shun Ming ⁽²⁾	RMB781,815 (S\$155,003)	–
Foshan Unibott Technology Limited ⁽³⁾	RMB2,652,619 (S\$525,911)	–

⁽¹⁾ Rental payment to Guangdong Xing Hua Health Drink Co. Ltd, an associate of Pan Shun Ming (Executive Chairman, CEO and Substantial Shareholder) and Mai Shu Ying (Substantial Shareholder), for factory occupied by Foshan Southern Packaging Co., Ltd., a wholly-owned subsidiary of the Company.

⁽²⁾ Rental payment for office occupied by Southern (HK) Packaging Company Limited, a wholly-owned subsidiary of the Company.

⁽³⁾ Supply of products by Foshan Southern Packaging Co., Ltd. to Foshan Unibott Technology Limited, an associate of Pan Zhaojin, a substantial shareholder of the Company.

CORPORATE GOVERNANCE REPORT

CORPORATE SOCIAL RESPONSIBILITIES

The Company has always fostered a socially responsible corporate culture amongst its management and staff. Our management team and employees are our assets. We recognise that the success of our Group is due in great part to our dedicated and passionate team of employees working together to deliver high-quality services to our customers. Therefore, we take great care of employees by providing them a safe and healthy work premises and offer them opportunities to continually enhance and develop their core skills and knowledge base. In addition to this, we also provide classroom training and product knowledge, safety and product handling, new market trends and technologies so that our staff stays up-to-date with the latest developments and trends within the industry. New employees will also be provided mandatory orientation programmes to familiarise them with the Group's corporate identity, policy and standard operation practice.

SUSTAINABILITY REPORTING

The Group firmly believes that our commitment to embrace the tenets of corporate sustainability as a driving force to creating value for our stakeholders at large. We adopt the principles of sustainability throughout our supply chain and continue to build sustainable practices in every aspect of the Group's business in achieving high levels of integrity and excellence in its activities. We focus our efforts on sustainable economic growth, training and education, employment, environment protection and environmental compliance. Please refer to our Sustainability Report released on 29 May 2020 via SGXNet for more information.

DIRECTORS' STATEMENT

The Directors of Southern Packaging Group Limited (the “Company”) present their statement to the members together with the audited financial statements of the Company and its subsidiaries (the “Group”) for the financial year ended 31 December 2019 and the statement of financial position of the Company as at 31 December 2019 and the statement of changes in equity of the Company for the financial year then ended.

1. Opinion of the Directors

In the opinion of the Board of Directors,

- (a) the consolidated financial statements of the Group and the statement of financial position and statement of changes in equity of the Company together with the notes thereon are properly drawn up in accordance with the provisions of the Singapore Companies Act, Chapter 50 (the “Act”), Singapore Financial Reporting Standards (International) and International Financial Reporting Standards so as to give a true and fair view of the financial position of the Group and of the Company as at 31 December 2019 and of the financial performance, changes in equity and cash flows of the Group and changes in equity of the Company for the financial year ended on that date; and
- (b) at the date of this statement, there are reasonable grounds to believe that the Company will be able to pay its debts as and when they fall due.

2. Directors

The Directors of the Company in office at the date of this statement are as follows:

Pan Shun Ming
Chen Xiang Zhi
Yeung Koon Sang @ David Yeung
Chung Tang Fong
Chia Chor Leong

3. Arrangements to enable Directors to acquire shares or debentures

Neither at the end of nor at any time during the financial year was the Company a party to any arrangement whose object is to enable the Directors of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

DIRECTORS' STATEMENT

4. Directors' interests in shares or debentures

According to the Register of Directors' Shareholdings kept by the Company for the purposes of the Act, none of the Directors of the Company holding office at the end of the financial year had any interests in the shares or debentures of the Company and its related corporations except as detailed below:

	Shareholdings registered in name of Director		Shareholdings in which Director is deemed to have an interest	
	Balance as at 1 January 2019	Balance as at 31 December 2019	Balance as at 1 January 2019	Balance as at 31 December 2019
	Number of ordinary shares			
Company				
Pan Shun Ming	27,384,697	27,384,697	17,925,265	17,925,265

In accordance with the continuing listing requirements of the Singapore Exchange Securities Trading Limited ("SGX-ST"), the Directors of the Company state that, according to the Register of the Directors' Shareholdings, the Directors' interests as at 21 January 2020 in the shares or debentures of the Company and its related corporations have not changed from those disclosed as at 31 December 2019.

5. Share options

There were no share options granted by the Company or its subsidiary corporations during the financial year.

There were no shares issued during the financial year by virtue of the exercise of options to take up unissued shares of the Company or its subsidiary corporations.

There were no unissued shares of the Company or its subsidiary corporations under option as at the end of the financial year.

DIRECTORS' STATEMENT

6. Audit Committee

The Audit Committee of the Company is chaired by Yeung Koon Sang @ David Yeung, and includes Chung Tang Fong and Chia Chor Leong, all Independent and Non-Executive Directors. The Audit Committee has met 5 times since the last Annual General Meeting and has reviewed the following, where relevant, with the Executive Directors and internal and external auditors of the Company:

- (a) the audit plans of the internal and external auditors and the results of the internal auditors' examination and evaluation of the Group's systems of internal accounting controls;
- (b) the Group's financial and operating results and accounting policies;
- (c) the statement of financial position and statement of changes in equity of the Company and the consolidated financial statements of the Group before their submission to the Directors of the Company and external auditor's report on those financial statements;
- (d) the half-yearly and annual financial statements and results announcements of the Company and the Group;
- (e) the co-operation and assistance given by the management to the Group's internal and external auditors; and
- (f) the independence and re-appointment of the external auditor of the Company.

The Audit Committee has full access to and has the co-operation of the management and has been given the resources required for it to discharge its function properly. It also has full discretion to invite any Director and executive officer to attend its meetings. The internal and external auditors have unrestricted access to the Audit Committee.

The Audit Committee has recommended to the Directors the nomination of BDO LLP for re-appointment as external auditor at the forthcoming Annual General Meeting of the Company.

7. Independent auditor

The independent auditor, BDO LLP, has expressed its willingness to accept re-appointment.

On behalf of the Board of Directors

Pan Shun Ming
Director

28 May 2020

Chen Xiang Zhi
Director

INDEPENDENT AUDITOR'S REPORT

TO THE MEMBERS OF SOUTHERN PACKAGING GROUP LIMITED

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Southern Packaging Group Limited (the “Company”) and its subsidiaries (the “Group”) as set out on page 50 to 114, which comprise:

- the consolidated statement of financial position of the Group and the statement of financial position of the Company as at 31 December 2019;
- the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows of the Group and the statement of changes in equity of the Company for the financial year then ended; and
- notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements of the Group and the statement of financial position and the statement of changes in equity of the Company are properly drawn up in accordance with the provisions of the Companies Act, Chapter 50 (the “Act”), Singapore Financial Reporting Standards (International) (“SFRS(I)s”) and International Financial Reporting Standards (“IFRSs”) so as to give a true and fair view of the consolidated financial position of the Group and the financial position of the Company as at 31 December 2019 and of the consolidated financial performance, consolidated changes in equity and consolidated cash flows of the Group and of the changes in equity of the Company for the financial year ended on that date.

Basis for Opinion

We conducted our audit in accordance with Singapore Standards on Auditing (“SSAs”). Our responsibilities under those standards are further described in the Auditor’s Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Group in accordance with the Accounting and Corporate Regulatory Authority (“ACRA”) Code of Professional Conduct and Ethics for Public Accountants and Accounting Entities (“ACRA Code”) together with the ethical requirements that are relevant to our audit of the financial statements in Singapore, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the ACRA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

INDEPENDENT AUDITOR'S REPORT

TO THE MEMBERS OF SOUTHERN PACKAGING GROUP LIMITED

Report on the Audit of the Financial Statements (Continued)	
KEY AUDIT MATTER	AUDIT RESPONSE
1	Adoption of SFRS(I) 16 Leases
<p>The Group entered into operating lease agreements for warehouse spaces, office and residential premises.</p> <p>With effect from 1 January 2019, the Group is required to adopt SFRS(I) 16 Leases which introduces a new lease accounting model, where the Group is required to recognise a right-of-use (“ROU”) asset and a lease liability arising from the leases on its statements of financial position.</p> <p>During the financial year, the Group finalised its assessment arising from the adoption of SFRS(I) 16, using the modified retrospective method, with no restatement of comparative information. As at 1 January 2019, the Group recognised assets and lease liabilities of RMB5,275,334.</p> <p>We focused on this area as key audit matter as significant management judgements and estimates are involved to determine the ROU assets and lease liabilities such as assessment of lease term and determination of appropriate discount rates.</p> <p>Refer to Notes 2.1, 2.8, 3.1, 14 and 25 of the accompanying financial statements.</p>	<p>We performed the following audit procedures, amongst others:</p> <ul style="list-style-type: none"> • Held discussions with management to understand the Group’s process in identifying lease contracts, or contracts which contained leases; • Examined terms and conditions of lease contracts to ensure leases have been appropriately identified; • Assessed the appropriateness of the discount rate applied and the likelihood of exercising the extension option; • Reviewed mathematical accuracy of ROU assets and lease liabilities quantification provided by management; • Reviewed the appropriateness of practical expedient applied by the Group; and • Reviewed the Group’s disclosures of SFRS(I) 16 in the financial statements.

INDEPENDENT AUDITOR'S REPORT

TO THE MEMBERS OF SOUTHERN PACKAGING GROUP LIMITED

Report on the Audit of the Financial Statements (Continued)

KEY AUDIT MATTER

AUDIT RESPONSE

2 Loss allowance on trade receivables

As at 31 December 2019, the Group had gross trade receivables amounting RMB163,511,950, of which loss allowance of RMB158,051 was provided. The Group was exposed to various customers with different profiles and characteristics.

The Group recognised loss allowance on trade receivables based on the simplified approach within SFRS(I) 9 Financial Instrument using provision matrix to determine lifetime expected credit losses.

In determining expected credit loss ("ECL") rates for the Group's non-credit impaired trade receivables, the Group considered historical loss pattern of respective customers in different geographical areas and forward looking information to reflect current conditions and estimates of future economic conditions. No loss allowance was made on these balances as the amount is insignificant to the Group.

Notwithstanding the above, the Group evaluated the ECL on customers in financial difficulties separately.

We focused on this area as a key audit matter as significant judgements are involved in the measurement of ECL.

Refer to Notes 2.17, 3.2, 18 and 33(i) of the accompanying financial statements.

We performed the following audit procedures, amongst others:

- Obtained an understanding of the Group's ECL model and evaluated their reasonableness and tested the mathematical accuracy;
- Reviewed the historical loss pattern, on-going business relationship and geographical profile of overdue trade receivables;
- Verified the external data sources the Group factored in adjustment to derive the adjusted historical credit loss;
- Checked subsequent collections relating to the Group's significant past due trade receivables; and
- Assessed the adequacy of the Group's disclosure in respect of credit risk.

Other Information

Management is responsible for the other information. The other information comprises the information included in the annual report, but does not include the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

INDEPENDENT AUDITOR'S REPORT

TO THE MEMBERS OF SOUTHERN PACKAGING GROUP LIMITED

Report on the Audit of the Financial Statements (Continued)

Responsibilities of Management and Directors for the Financial Statements

Management is responsible for the preparation of financial statements that give a true and fair view in accordance with the provisions of the Act, SFRS(I)s and IFRSs, and for devising and maintaining a system of internal accounting controls sufficient to provide a reasonable assurance that assets are safeguarded against loss from unauthorised use or disposition; and transactions are properly authorised and that they are recorded as necessary to permit the preparation of true and fair financial statements and to maintain accountability of assets.

In preparing the financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

The Directors' responsibilities include overseeing the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with SSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with SSAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

INDEPENDENT AUDITOR'S REPORT

TO THE MEMBERS OF SOUTHERN PACKAGING GROUP LIMITED

Report on the Audit of the Financial Statements (Continued)

Auditor's Responsibilities for the Audit of the Financial Statements (Continued)

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the Directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Directors, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on Other Legal and Regulatory Requirements

In our opinion, the accounting and other records required by the Act to be kept by the Company have been properly kept in accordance with the provisions of the Act.

The engagement partner on the audit resulting in this independent auditor's report is William Ng Wee Liang.

BDO LLP
Public Accountants and
Chartered Accountants

Singapore
28 May 2020

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019

		Group	
	Note	2019 RMB	2018 RMB
Revenue	4	709,066,361	724,154,250
Cost of sales		(561,406,117)	(586,928,072)
Gross profit		147,660,244	137,226,178
<i>Other item of income</i>			
Other income	5	6,597,652	8,650,111
<i>Other items of expense</i>			
Distribution expenses		(41,753,082)	(42,829,677)
Administrative expenses		(85,720,239)	(87,231,833)
Finance costs	6	(17,929,563)	(18,235,897)
Profit/(Loss) before income tax	7	8,855,012	(2,421,118)
Income tax credits	8	370,457	196,163
Profit/(Loss) for the financial year, representing profit/(loss) for the financial year attributable to owners of the parent		9,225,469	(2,224,955)
Other comprehensive income:			
<i>Item that may be reclassified subsequently to profit:</i>			
Exchange differences on translation of foreign operations		524,735	837,724
Other comprehensive income for the financial year, net of tax		524,735	837,724
Total comprehensive income/(loss) for the financial year, representing total comprehensive income/(loss) attributable to owners of the parent		9,750,204	(1,387,231)
Earnings per share			
- Basic and diluted (RMB cents)	9	13.12	(3.16)

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

STATEMENTS OF FINANCIAL POSITION

AS AT 31 DECEMBER 2019

	Note	Group		Company	
		2019 RMB	2018 RMB	2019 RMB	2018 RMB
ASSETS					
Non-current assets					
Property, plant and equipment	10	498,088,003	523,702,605	–	–
Investment property	11	417,743	435,149	–	–
Investments in subsidiaries	12	–	–	465,932,925	465,932,925
Land use rights	13	40,791,256	41,828,404	–	–
Right-of-use assets	14	2,682,428	–	–	–
Deferred tax assets	15	4,190,899	2,545,776	–	–
Total non-current assets		546,170,329	568,511,934	465,932,925	465,932,925
Current assets					
Property under development	16	170,695,560	65,125,557	–	–
Inventories	17	70,714,547	82,163,735	–	–
Trade receivables	18	163,353,899	164,093,110	–	–
Other receivables and prepayments	19	39,979,066	28,889,480	1,305,624	1,305,122
Cash and bank balances	20	125,817,400	66,475,324	1,021,790	1,437,190
Fixed deposits	21	2,994,039	12,252,170	–	–
Total current assets		573,554,511	418,999,376	2,327,414	2,742,312
Total assets		1,119,724,840	987,511,310	468,260,339	468,675,237
LIABILITIES AND EQUITY					
Equity					
Share capital	22	230,592,765	230,592,765	230,592,765	230,592,765
Capital contribution	23	12,638,812	12,638,812	–	–
Statutory reserve	23	57,674,557	56,937,599	–	–
Foreign currency translation account	23	(1,749,709)	(2,274,444)	–	–
Retained earnings		257,559,315	249,070,804	203,308,753	212,638,234
Total equity		556,715,740	546,965,536	433,901,518	443,230,999

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

STATEMENTS OF FINANCIAL POSITION

AS AT 31 DECEMBER 2019

	Note	Group		Company	
		2019 RMB	2018 RMB	2019 RMB	2018 RMB
Non-current liabilities					
Deferred government subsidies	24	12,851,332	12,239,310	–	–
Lease liabilities	25	70,206	–	–	–
Deferred tax liabilities	15	1,000,000	1,000,000	–	–
Borrowings	26	137,257,566	24,767,002	–	–
Total non-current liabilities		<u>151,179,104</u>	<u>38,006,312</u>	<u>–</u>	<u>–</u>
Current liabilities					
Deferred government subsidies	24	1,138,959	915,430	–	–
Lease liabilities	25	2,671,438	–	–	–
Current income tax payable		5,696,072	5,161,329	–	–
Trade payables	27	123,861,037	109,632,839	–	–
Other payables	28	37,968,634	31,900,460	34,358,821	25,444,238
Borrowings	26	240,493,856	254,929,404	–	–
Total current liabilities		<u>411,829,996</u>	<u>402,539,462</u>	<u>34,358,821</u>	<u>25,444,238</u>
Total liabilities		<u>563,009,100</u>	<u>440,545,774</u>	<u>34,358,821</u>	<u>25,444,238</u>
Total liabilities and equity		<u>1,119,724,840</u>	<u>987,511,310</u>	<u>468,260,339</u>	<u>468,675,237</u>

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

STATEMENTS OF CHANGES IN EQUITY

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019

	Note	Share capital RMB	Capital contribution RMB	Statutory reserve RMB	Foreign currency translation account RMB	Retained earnings RMB	Total equity RMB
Group							
Balance as at 1 January 2019		230,592,765	12,638,812	56,937,599	(2,274,444)	249,070,804	546,965,536
Profit for the financial year		-	-	-	-	9,225,469	9,225,469
Other comprehensive income for the financial year							
- Exchange differences on translation of foreign operations		-	-	-	524,735	-	524,735
Total comprehensive income for the financial year		-	-	-	524,735	9,225,469	9,750,204
Others							
Transfer to statutory reserve	23	-	-	736,958	-	(736,958)	-
Balance as at 31 December 2019		230,592,765	12,638,812	57,674,557	(1,749,709)	257,559,315	556,715,740
Balance as at 1 January 2018		230,592,765	12,638,812	56,292,235	(3,112,168)	253,153,382	549,565,026
Loss for the financial year		-	-	-	-	(2,224,955)	(2,224,955)
Other comprehensive income for the financial year							
- Exchange differences on translation of foreign operations		-	-	-	837,724	-	837,724
Total comprehensive loss for the financial year		-	-	-	837,724	(2,224,955)	(1,387,231)
Distributions to owners of the parent							
Dividends	31	-	-	-	-	(1,212,259)	(1,212,259)
Others							
Transfer to statutory reserve	23	-	-	645,364	-	(645,364)	-
Balance as at 31 December 2018		230,592,765	12,638,812	56,937,599	(2,274,444)	249,070,804	546,965,536

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

STATEMENTS OF CHANGES IN EQUITY

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019

	Note	Share capital RMB	Retained earnings RMB	Total equity RMB
Company				
Balance as at 1 January 2019		230,592,765	212,638,234	443,230,999
Loss for the financial year, representing total comprehensive loss for the financial year		–	(9,329,481)	(9,329,481)
Balance as at 31 December 2019		<u>230,592,765</u>	<u>203,308,753</u>	<u>433,901,518</u>
Balance as at 1 January 2018		230,592,765	223,139,252	453,732,017
Loss for the financial year, representing total comprehensive loss for the financial year		–	(9,288,759)	(9,288,759)
<i>Distributions to owners of the parent</i>				
Dividends	31	–	(1,212,259)	(1,212,259)
Balance as at 31 December 2018		<u>230,592,765</u>	<u>212,638,234</u>	<u>443,230,999</u>

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

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019

	Group	
	2019 RMB	2018 RMB
Operating activities		
Profit/(Loss) before income tax	8,855,012	(2,421,118)
Adjustments for:		
Allowance made for/(Reversal of) inventories obsolescence	21,076	(200,032)
Amortisation of deferred government subsidy	(1,064,449)	(915,430)
Amortisation of land use rights	1,037,148	1,288,313
Amortisation of right-of-use assets	2,569,068	–
Depreciation of investment property	17,406	17,406
Depreciation of property, plant and equipment	62,187,822	58,873,891
Interest expense	17,929,563	18,235,897
Interest income	(603,460)	(452,603)
Loss on disposal of property, plant and equipment	25,510	464,785
Property, plant and equipment written off	–	678,015
Reversal of loss allowance for trade receivables	(50,993)	(533,707)
Unrealised foreign currency exchange loss/(gain)	359,626	(422,477)
Operating cash flows before working capital changes	91,283,329	74,612,940
Working capital changes:		
Property under development	(96,945,396)	(48,056,921)
Inventories	11,430,215	(6,770,568)
Trade receivables	1,868,943	7,393,058
Other receivables and prepayments	(10,333,106)	4,586,725
Trade payables	177,918	(37,826,668)
Other payables	5,986,195	(800,576)
Cash from/(used in) operations	3,468,098	(6,862,010)
Income tax paid	(754,351)	(435,093)
Net cash from/(used in) operating activities	2,713,747	(7,297,103)
Investing activities		
Purchase of property, plant and equipment	(34,961,971)	(23,488,189)
Proceeds from disposal of property, plant and equipment	2,701,106	422,218
Government grant received	1,900,000	–
Interest received	603,460	452,603
Net cash used in investing activities	(29,757,405)	(22,613,368)

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

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019

	Group	
	2019	2018
	RMB	RMB
Financing activities		
Interest paid	(17,929,563)	(18,235,897)
Proceeds from borrowings (Note A)	426,844,659	246,981,089
Repayment of borrowings (Note A)	(329,406,760)	(248,801,421)
Repayment of lease liabilities (Note A)	(2,510,154)	–
Decrease in fixed deposits pledged	9,759,537	789,636
Dividends paid	–	(1,212,259)
Net cash from/(used in) financing activities	86,757,719	(20,478,852)
Net change in cash and cash equivalents	59,714,061	(50,389,323)
Cash and cash equivalents as at the beginning of the financial year	66,475,324	116,337,838
Effect of exchange rate changes on the balance of cash held in foreign currencies	129,421	526,809
Cash and cash equivalents as at the end of the financial year (Note 20)	126,318,806	66,475,324

Note A: Reconciliation of liabilities arising from financing activities is as follows:

	<u>Non-cash changes</u>				
	1 January 2019	Net cash flows	Adoption of SFRS(I) 16	Foreign exchange differences	31 December 2019
	RMB	RMB	RMB	RMB	RMB
Borrowings (Note 26)	279,696,406	97,437,899	–	617,117	377,751,422
Lease liabilities (Note 25)	–	(2,510,154)	5,275,334	(23,536)	2,741,644
	279,696,406	94,927,745	5,275,334	593,581	380,493,066

	<u>Non-cash changes</u>			
	1 January 2018	Net cash flows	Foreign exchange differences	31 December 2018
	RMB	RMB	RMB	RMB
Borrowings (Note 26)	281,576,681	(1,820,332)	(59,943)	279,696,406

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

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019

These notes form an integral part of and should be read in conjunction with the financial statements.

1. General information

Southern Packaging Group Limited (the “Company”) (Registration Number: 200313312N) is a public company limited by shares, incorporated and domiciled in the Republic of Singapore with its registered office at 80 Robinson Road, #02-00, Singapore 068898 and principal place of business at No. 9 Foping Four Road, Gui Cheng, Nanhai, Foshan City, Guangdong 528251, the People’s Republic of China. The Company is listed on the Main Board of Singapore Exchange Securities Trading Limited (“SGX-ST”).

The principal activity of the Company is that of investment holding. The principal activities of its subsidiaries are disclosed in Note 12 to the financial statements.

The consolidated financial statements of the Company and its subsidiaries (the “Group”) and the statement of financial position and statement of changes in equity of the Company for the financial year ended 31 December 2019 were authorised for issue by the Board of Directors on 28 May 2020.

2. Summary of significant accounting policies

2.1 Basis of preparation of financial statements

The financial statements have been prepared in accordance with Singapore Financial Reporting Standards (International) (“SFRS(I)s”) and International Financial Reporting Standards (“IFRSs”). SFRS(I)s issued by the Accounting Standards Council (“ASC”) comprises standards and interpretations that are equivalents to IFRSs as issued by the International Accounting Standards Board (“IASB”). All references to SFRS(I)s and IFRSs are subsequently referred to as SFRS(I) in the financial statements.

The individual financial statements of each Group entity are measured and presented in the currency of the primary economic environment in which the entity operates (“functional currency”). The consolidated financial statements of the Group, the statement of financial position and statement of changes in equity of the Company are presented in Chinese renminbi (“RMB”) which is the functional currency of the Company and the presentation currency for the consolidated financial statements.

The preparation of financial statements in conformity with SFRS(I)s requires management to make judgements, estimates and assumptions that affect the Group’s application of accounting policies and reported amounts of assets, liabilities, revenue and expenses. Although these estimates are based on management’s best knowledge of current events and actions, actual results may differ from those estimates. The areas where such judgements or estimates have the most significant effect on the financial statements are disclosed in Note 3 to the financial statements.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019

2. Summary of significant accounting policies (Continued)

2.1 Basis of preparation of financial statements (Continued)

Changes in accounting policies

New standards, amendments and interpretations effective from 1 January 2019

The standards, amendments to standards, and interpretations, issued by ASC that will apply for the first time by the Group are not expected to impact the Group as they are either not relevant to the Group's business activities or require accounting which is consistent with the Group's current accounting policies, except as detailed below.

SFRS(I) 16 Leases

SFRS(I) 16 supersedes SFRS(I) 1-17 Leases and SFRS(I) INT 4 Determining whether an Arrangement Contains a Lease. SFRS(I) 16 provides a single lessee accounting model which eliminates the distinction between operating and finance leases for lessees. SFRS(I) 16 requires lessee to capitalise all leases on the statements of financial position by recognising a 'right-of-use' asset and a corresponding lease liability for the present value of the obligation to make lease payments, except for certain short-term leases and leases of low-value assets. Subsequently, the right-of-use assets will be depreciated and the lease liabilities will be measured at amortised cost. From the perspective of a lessor, the classification and accounting for operating and finance leases remains substantially unchanged under SFRS(I) 16.

The Group and the Company applied SFRS(I) 16 using modified retrospective method of adoption with the date of initial application of 1 January 2019. The Group and the Company elected to measure right-of-use asset at an amount equal to the lease liability as at date of initial application. The Group and the Company elected to apply the practical expedient to not reassess whether a contract is, or contains a lease at the date of initial application. Contracts entered into before the transition date that were not identified as leases under SFRS(I) 1-17 and SFRS(I) INT 4 were not reassessed. The definition of lease under SFRS(I) 16 was applied only to contracts entered into or changed on or after 1 January 2019.

In applying the modified retrospective approach, the Group and the Company has taken advantage of the following practical expedients:

- Leases with a remaining term of twelve months from the date of initial application have been accounted for as short-term leases (i.e. not recognised on statements of financial position) even though the initial term of the leases from lease commencement date may have been more than twelve months;
- For the purpose of measuring the right-of-use asset, hindsight has been used. Therefore, it has been measured based on prevailing estimates at the date of initial application and not retrospectively by making estimates and judgements (such as lease terms) based on circumstances on or after the lease commencement date.

As a lessee, the Group and the Company previously classified leases as operating lease based on its assessment of whether the lease transferred substantially all the risks and rewards of ownership. Under SFRS(I) 16, the Group and the Company recognises right-of-use assets and lease liabilities for most leases. For those low-value assets based on the value of the underlying asset when new and leases with a lease term of 12 months or less, the Group and the Company elected not to recognise right-of-use assets and lease liabilities for these leases.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019

2. Summary of significant accounting policies (Continued)

2.1 Basis of preparation of financial statements (Continued)

Changes in accounting policies (Continued)

New standards, amendments and interpretations effective from 1 January 2019 (Continued)

SFRS(I) 16 Leases (Continued)

On adoption of SFRS(I) 16, the Group recognised right-of-use assets and lease liabilities in relation to warehouse spaces, office and residential premises which had previously been classified as operating leases.

Lease liabilities from operating leases under the principles of SFRS(I) 1-17 were measured at the present value of the remaining lease payments, discounted using lessee's incremental borrowing rate as at 1 January 2019. The weighted average incremental borrowing rate applied to lease liabilities on 1 January 2019 was 5.01% per annum.

The right-of-use assets relating were measured at an amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payment.

The effect of adopting SFRS(I) 16 as at 1 January 2019 was as follows:

	Group Increase/ (Decrease) RMB
Assets	
Right-of-use assets	<u>5,275,334</u>
Liabilities	
Lease liabilities	<u>5,275,334</u>

The aggregate lease liabilities recognised in the consolidated statement of financial position as at 1 January 2019 and the Group's operating lease commitments as at 31 December 2018 can be reconciled as follows:

	RMB
Operating lease commitments as at 31 December 2018 (Note 29)	2,281,405
Less: Effect of short term and low value leases	(111,357)
Add: Effect of extension options reasonably certain to be exercised	<u>3,343,132</u>
	5,513,180
Effect of discounting using the incremental borrowing rate as at date of initial application	<u>(237,846)</u>
Lease liabilities as at 1 January 2019	<u>5,275,334</u>

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019

2. Summary of significant accounting policies (Continued)

2.1 Basis of preparation of financial statements (Continued)

Changes in accounting policies (Continued)

New standards, amendments and interpretations effective from 1 January 2019 (Continued)

SFRS(I) INT 23 Uncertainty over Income Tax Treatments

SFRS(I) INT 23 provides guidance on accounting for current and deferred tax liabilities and assets in circumstances in which there is uncertainty over income tax treatments. The interpretation requires:

- The Group to contemplate whether uncertain tax treatments should be considered separately or together as a group, based on which approach provides better predictions of the resolution;
- The Group to determine if it is probable that the tax authorities will accept the uncertain tax treatment; and
- If it is not probable that the uncertain tax treatment will be accepted, measure the tax uncertainty based on the most likely amount or expected value, depending on whichever method better predicts the resolution of the uncertainty.

There is no material impact to the previously recognised income taxes and deferred taxes. Additionally, due to the existence of uncertain tax treatments, relevant disclosure on the significant judgements and estimates has been incorporated and included in Note 3.2 to the financial statements.

New standards, amendments and interpretations issued but not yet effective

There are a number of standards, amendments to standards, and interpretations, which have been issued by the ASC that are effective in future accounting periods and the Group has not decided to early adopt. The Group does not expect any of these standards upon adoption will have a material impact to the Group.

2.2 Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries. Subsidiaries are entities over which the Group has control. The Group controls an investee if the Group has power over the investee, exposure to variable returns from the investee, and the ability to use its power to affect those variable returns. Control is reassessed whenever facts and circumstances indicate that there may be a change in any of these elements of control.

Subsidiaries are consolidated from the date on which control is obtained by the Group up to the effective date on which control is lost. Control is reassessed whenever the facts and circumstances indicate that they may be a change in the elements of control.

Intra-group balances and transactions and any unrealised gains arising from intra-group transactions are eliminated on consolidation. Unrealised losses may be an impairment indicator of the asset concerned.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019

2. Summary of significant accounting policies (Continued)

2.2 Basis of consolidation (Continued)

The financial statements of the subsidiaries are prepared for the same financial year as that of the Company, using consistent accounting policies. Where necessary, accounting policies of subsidiaries are changed to ensure consistency with the policies adopted by other members of the Group.

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

When the Group loses control of a subsidiary, it derecognises the assets and liabilities of the subsidiary and any non-controlling interest. The profit or loss on disposal is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets (including goodwill), and liabilities of the subsidiary and any non-controlling interests. Amounts previously recognised in other comprehensive income in relation to the subsidiary are accounted for (i.e. reclassified to profit or loss or transferred directly to retained earnings) in the same manner as would be required if the relevant assets or liabilities were disposed of. The fair value of any investments retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under SFRS(I) 9 Financial Instruments: Recognition and Measurement or, when applicable, the cost on initial recognition of an investment in an associate or joint venture.

In the separate financial statements of the Company, investments in subsidiaries are carried at cost, less any impairment losses that has been recognised in profit or loss.

2.3 Business combinations

The acquisition of subsidiaries is accounted for using the acquisition method. The consideration transferred for the acquisition is measured at the aggregate of the fair values, at the date of exchange, of assets given, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control of the acquiree. Acquisition-related costs are recognised in profit or loss as incurred. Consideration also includes the fair value of any contingent consideration.

The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under SFRS(I) 3 are recognised at their fair values at the acquisition date.

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

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019

2. Summary of significant accounting policies (Continued)

2.3 Business combinations (Continued)

Goodwill arising on acquisition is recognised as an asset at the acquisition date and initially measured at the excess of the sum of the consideration transferred, the amount of any non-controlling interest in the acquiree and the fair value of the acquirer's previously held equity interest (if any) in the entity over net acquisition-date fair value amounts of the identifiable assets acquired and the liabilities assumed.

If, after reassessment, the Group's interest in the net fair value of the acquiree's identifiable net assets exceeds the sum of the consideration transferred, the amount of any non-controlling interest in the acquiree and the fair value of the acquirer's previously held equity interest in the acquiree (if any), the excess is recognised immediately in profit or loss as a bargain purchase gain.

2.4 Revenue recognition

Sale of goods

The Group manufactures and sells rigid and flexible packaging products to corporate customers. Revenue from sale of goods is recognised when a performance obligation is satisfied by transferring control of promised goods to the customers (i.e. goods are accepted by customers). For overseas sales, performance obligations are satisfied when the control of goods (based on shipping terms) are transferred to the customers.

Revenue is measured based on consideration of which the Group expects to be entitled in exchange for transferring promised goods or services to customers, excluding amounts collected on behalf of third parties (i.e. sales related taxes). The consideration promised in the contracts with customers may include fixed amounts, variable amounts or both. Most of the Group's revenue is derived from fixed price contracts and therefore, the amount of revenue earned for each contract is determined by reference to those fixed prices, except for certain contracts that are subject to insignificant volume discounts. There is no element of significant financing component in the Group's revenue transactions as customers are required to pay within average credit term of 60 days.

In certain situations where customers contribute moulds and tooling to facilitate Group's fulfilment of the performance obligation, the Group assessed that it does not have control over the moulds and tooling. Accordingly, the Group does not account for such contribution as non-cash consideration received from customers.

A contract liability is the obligation to transfer goods to a customer for which the Group has received a consideration (or an amount of consideration that is due) from the customer. In certain circumstances, the Group receives advance payments from customers and the consideration received as at the end of each reporting period would be utilised within 12 months. The amount of contract liabilities is included in "Other payables".

Interest income

Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019

2. Summary of significant accounting policies (Continued)

2.4 Revenue recognition (Continued)

Rental income

Rental income from investment property and property, plant and equipment are recognised on a straight-line basis over the term of the relevant leases.

Service income

Service income is mainly related to moulds and tooling sourcing service which are distinct from the sale of goods to customers. The Group is acting as an agent for customers, hence, income, after deducting the related expenses, is recognised at point in time upon acceptance by the customers.

2.5 Government subsidies

Government subsidies are not recognised until there is reasonable assurance that the Group will comply with the conditions attaching to them and the subsidies will be received. Government subsidies whose primary condition is that the Group should purchase, construct or otherwise acquire non-current assets are recognised as deferred government subsidies in the statements of financial position and transferred to profit or loss on a systematic and rationale basis over the useful lives of the related assets.

2.6 Retirement benefit costs

Payments to defined contribution plans are charged as an expense as they fall due. Payments made to state-managed retirement benefit schemes, such as the Singapore Central Provident Fund, are dealt with as payments to defined contribution plans where the Group's obligations under the plans are equivalent to those arising in a defined contribution plan.

Pursuant to the relevant regulations of the People's Republic of China government, the Group participates in a local municipal government retirement benefits scheme (the "Scheme"), whereby the subsidiaries of the Company in the People's Republic of China are required to contribute a certain percentage of the basic salaries of their employees to the Scheme to fund their retirement benefits. The local municipal government undertakes to assume the retirement benefits obligations of all existing and future retired employees of the subsidiaries of the Company. The only obligation of the Group with respect to the Scheme is to pay the required contributions under the Scheme mentioned above. Contributions under the Scheme are charged to the profit or loss as incurred.

2.7 Employee leave entitlements

Employee entitlements to annual leave are recognised when they accrue to employees. An accrual is made for the estimated undiscounted liability for unutilised annual leave expected to be settled wholly within 12 months from the reporting date as a result of services rendered by employees up to the end of the financial year.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019

2. Summary of significant accounting policies (Continued)

2.8 Leases

Accounting policy for leases on or after 1 January 2019

Group as lessor

Leases where the Group retains substantially all risks and rewards incidental to ownership are classified as operating leases. Rental income from operating leases (net of any incentives given to lessees) is recognised on a straight-line basis over the term of the relevant lease unless another systematic basis is more representative of the time pattern in which user benefit derived from the leased asset is diminished. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised on a straight-line basis over the lease term.

Group as lessee

All leases are accounted for by recognising a right-of-use asset and a lease liability.

Initial measurement

Lease liabilities are measured at the present value of the contractual payments due to the lessor over the lease term, with the discount rate determined by reference to the rate inherent in the lease unless this is not readily determinable, in which case the Group's incremental borrowing rate on commencement of the lease is used.

Variable lease payments are only included in the measurement of the lease liability if it is depending on an index or rate. In such cases, the initial measurement of the lease liability assumes the variable element will remain unchanged throughout the lease term. Other variable lease payments are expensed in the period to which they relate.

On initial recognition, the carrying amount of lease liabilities also includes:

- amounts expected to be payable under any residual value guarantee;
- the exercise price of any purchase option granted in favour of the Group if it is reasonably certain to assess that option; and
- any penalties payable for terminating the lease, if the term of the lease has been estimated on the basis of termination option being exercised.

Right-of-use assets are initially measured at the amount of lease liabilities, reduced by any lease incentives received and increased for:

- lease payments made at or before commencement of the lease;
- initial direct costs incurred; and
- the amount of any provision recognised where the Group is contractually required to dismantle, remove or restore the leased asset.

The Group's right-of-use assets comprise land use rights acquired for own use and property development as well as those relating to lease of warehouse spaces, office and residential premises with its corresponding lease liabilities separately presented from other assets and other liabilities in the statements of financial position.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019

2. Summary of significant accounting policies (Continued)

2.8 Leases (Continued)

Accounting policy for leases on or after 1 January 2019 (Continued)

Group as lessee (Continued)

Subsequent measurement

Right-of-use assets are subsequently measured at cost less any accumulated amortisation, any accumulated impairment loss and, if applicable, adjusted for any remeasurement of the lease liabilities. The right-of-use assets under cost model are depreciated on a straight-line basis over the shorter of either the remaining lease term or the remaining useful life of the right-of-use assets. If the lease transfers ownership of the underlying asset by the end of the lease term or if the cost of the right-of-use asset reflects that the Group will exercise the purchase option, the right-of-use assets are amortised over the useful life of the underlying asset.

The estimated useful life of right-of-use assets are as follows:

	Years
Land use rights	40 to 50
Warehouse spaces	2 to 3
Office premises	2 to 3
Residential premises	2

The carrying amount of right-of-use assets are reviewed for impairment when events or changes in circumstances indicate that the right-of-use asset may be impaired. The accounting policy on impairment is as described in Note 2.14 to the financial statements.

Subsequent to initial measurement, lease liabilities are adjusted to reflect interest charged at a constant periodic rate over the remaining lease liabilities, lease payment made and if applicable, account for any remeasurement due to reassessment or lease modifications.

After the commencement date, interest on the lease liabilities are recognised in profit or loss, unless the costs are eligible for capitalisation in accordance with other applicable standards.

When the Group revises its estimate of any lease term (i.e. probability of extension or termination option being exercised), it adjusts the carrying amount of the lease liability to reflect the payments over the revised term. The carrying amount of lease liabilities is similarly revised when the variable element of the future lease payment dependent on a rate or index is revised. In both cases, an equivalent adjustment is made to the carrying amount of the right-of-use assets. If the carrying amount of the right-of-use assets is reduced to zero and there is a further reduction in the measurement of lease liabilities, the remaining amount of the remeasurement is recognised directly in profit or loss.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019

2. Summary of significant accounting policies (Continued)

2.8 Leases (Continued)

Accounting policy for leases on or after 1 January 2019 (Continued)

Group as lessee (Continued)

Subsequent measurement (Continued)

When the Group renegotiates the contractual terms of a lease with the lessor, the accounting treatment depends on the nature of the modification:

- If the renegotiation results in one or more additional assets being leased for an amount commensurate with the standalone price for the additional right-of-use obtained, the modification is accounted for as a separate lease in accordance with the above policy;
- In all other cases where the renegotiation increases the scope of the lease (i.e. extension to the lease term, or one or more additional assets being leased), the lease liability is remeasured using the discount rate applicable on the modification date, with the right-of-use asset being adjusted by the same amount;
- If the renegotiation results in a decrease in scope of the lease, both the carrying amount of the lease liability and right-of-use asset are reduced by the same proportion to reflect the partial or full termination of the lease with any difference being recognised in profit or loss. The lease liability is then further adjusted to ensure its carrying amount reflects the amount of the renegotiated payments over the renegotiated term, with the modified lease payments discounted at the rate applicable on the modification date. The right-of-use asset is adjusted by the same amount.

Accounting policy for leases prior to 1 January 2019

Group as a lessor

Rental income from operating leases is recognised on a straight-line basis over the term of the relevant lease unless another systematic basis is more representative of the time pattern in which user benefit derived from the leased asset is diminished. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised on a straight-line basis over the lease term.

Group as lessee

Rentals payable under operating leases are charged to profit or loss on a straight-line basis over the term of the relevant lease unless another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019

2. Summary of significant accounting policies (Continued)

2.9 Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that are necessarily to take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale. Borrowing costs on general borrowings are capitalised by applying a capitalisation rate to construction or development expenditures that are financed by general borrowings.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred using the effective interest method.

2.10 Taxes

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

Current income tax

The tax currently payable is based on taxable profit for the financial year. Taxable profit differs from profit reported in profit or loss because it excludes items of income or expense that are taxable or deductible in other financial years and it further excludes items that are not taxable or tax deductible. The Group's liability for current tax is recognised at the amount expected to be paid or recovered from the tax authorities and is calculated using tax rates (and tax laws) that have been enacted or substantively enacted in countries where the Company and its subsidiaries operate by the end of the financial year.

Current income taxes are recognised in profit or loss, except to the extent that the tax relates to items recognised outside profit or loss, either in other comprehensive income or directly in equity.

Deferred tax

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

Deferred tax liabilities are recognised on 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.

The carrying amount of deferred tax assets is reviewed at the end of each financial year 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.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019

2. Summary of significant accounting policies (Continued)

2.10 Taxes (Continued)

Deferred tax (Continued)

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset realised based on the tax rates (and tax laws) that have been enacted or substantively enacted by the end of the financial year.

The measurement of deferred tax reflects the tax consequences that would follow from the manner in which the Group expects to recover or settle its assets and liabilities, except for investment property at fair value which are presumed to be recovered through sale.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

Deferred tax is recognised in profit or loss, except when it relates to items recognised outside profit or loss, in which case the tax is also recognised either in other comprehensive income or directly in equity.

Sales tax

Revenue, expenses and assets are recognised net of the amount of sales tax except:

- when the sales tax that is incurred on purchase of assets or services is not recoverable from the tax authorities, in which case the sales tax is recognised as part of cost of acquisition of the asset or as part of the expense item as applicable; and
- receivables and payables that are stated with the amount of sales tax included.

The net amount of sales tax recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the statements of financial position.

2.11 Foreign currency transactions and translation

In preparing the financial statements of the individual entities, transactions in currencies other than the entity's functional currency ("foreign currencies") are recorded at the rate of exchange prevailing on the date of the transaction. At the end of each financial year, monetary items denominated in foreign currencies are retranslated at the rates prevailing as of the end of the financial year. 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 retranslation of monetary items are included in profit or loss for the period. 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 differences arising on the retranslation of non-monetary items in respect of which gains and losses are recognised directly in equity. For such non-monetary items, any exchange component of that gain or loss is also recognised directly in equity.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019

2. Summary of significant accounting policies (Continued)

2.11 Foreign currency transactions and translation (Continued)

For the purpose of presenting consolidated financial statements, the assets and liabilities of the Group's foreign operation (including comparatives) are expressed in RMB using exchange rates prevailing at the end of the financial year. Income and expense items (including comparatives) are translated at the average exchange rates for the period, unless exchange rates fluctuated significantly during that period, in which case the exchange rates at the dates of the transactions are used. Exchange differences arising, are recognised initially in other comprehensive income and accumulated in the Group's foreign currency translation account.

On consolidation, exchange differences arising from the translation of the net investment in foreign entities (including monetary items that, in substance, form part of the net investment in foreign entities), and of borrowings and other currency instruments designated as hedges of such investments, are taken to the foreign currency translation account.

On disposal of a foreign operation, the accumulated foreign currency translation account relating to that operation is reclassified to profit or loss.

2.12 Property, plant and equipment

Property, plant and equipment are initially recognised at cost and subsequently stated at cost less accumulated depreciation and any accumulated impairment losses. The cost includes its purchase price and any costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Dismantlement, removal or restoration costs are included as part of the cost if the obligation for dismantlement, removal or restoration is incurred as a consequence of acquiring or using the property, plant and equipment.

Subsequent expenditure relating to the property, plant and equipment that has already been recognised is added to the carrying amount of the property, plant and equipment when it is probable that the future economic benefits, in excess of the standard of performance of the property, plant and equipment before the expenditure was made, will flow to the Group, and the cost can be reliably measured. Other subsequent expenditure is recognised as an expense during the financial year in which it is incurred.

Depreciation is charged so as to write off the cost of assets after taking into account their estimated residual value of 5% to 10%, other than construction in progress, over their estimated useful lives, using the straight-line method, on the following rates per annum:

Buildings	2.25% to 2.375%
Plant and machinery	6.33% to 18%
Furniture, fixture and equipment	18% to 20%
Motor vehicles	18% to 19%
Leasehold improvements	20%

No depreciation is charged on construction in progress as they are not yet in use as at the end of the financial year.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019

2. Summary of significant accounting policies (Continued)

2.12 Property, plant and equipment (Continued)

Construction in progress is carried at cost, less any recognised impairment loss. The costs include all direct costs and professional fees directly attributable to the construction. Depreciation of these assets, on the same basis as other assets, commences when the assets are ready for their intended use.

The carrying values of property, plant and equipment are reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable.

The estimated useful lives, residual values and depreciation methods are reviewed, and adjusted as appropriate, at the end of each financial year.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal.

The gain or loss arising on the 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 asset and is recognised in profit or loss.

2.13 Investment property

Investment property is property held to earn rentals and/or for capital appreciation. On initial recognition, investment property is measured at cost, including any directly attributable capital expenditure. Subsequent to initial recognition, investment property is stated at cost less accumulated depreciation and any accumulated impairment losses. Depreciation is charged so as to write off the cost of investment property over their estimated useful lives and after taking into account of their estimated residual values, using the straight-line method, at the rate of 2.375% per annum.

An investment property is derecognised upon disposal or when the investment property is permanently withdrawn from use and no future economic benefits are expected from its disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in profit or loss in the financial year in which the item is derecognised.

2.14 Impairment of non-financial assets

At the end of each financial year, the Group reviews the carrying amounts of its non-financial 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). Where 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.

The recoverable amount of an asset or cash-generating unit is the higher of its fair value less costs to sell and its 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.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019

2. Summary of significant accounting policies (Continued)

2.14 Impairment of non-financial assets (Continued)

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

2.15 Property under development

Property under development which is held for future sale in the ordinary course of business are included in current assets and comprise land use right and aggregate cost of development. Property under development is stated at the lower of cost and net realisable value.

Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and estimated selling expenses.

2.16 Inventories

Inventories are stated at the lower of cost and net realisable value. Cost comprises direct materials and where applicable, direct labour costs and those overheads that have been incurred in bringing the inventories to their present location and condition. Cost is calculated using the weighted average method. Net realisable value represents the estimated selling price less all estimated costs to completion and costs to be incurred in distribution.

2.17 Financial instruments

Financial assets and financial liabilities are recognised on the statements of financial position when the Group becomes a party to the contractual provisions of the instrument.

Financial assets

The Group classifies its financial assets under amortised cost. This depends on the Group's business model for managing the financial assets as well as the contractual terms of the cash flows of the financial asset. The Group shall reclassify its affected financial assets when and only when the Group changes its business model for managing these financial assets. The Group's accounting policy for financial assets recognised under amortised cost is as follows:

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019

2. Summary of significant accounting policies (Continued)

2.17 Financial instruments (Continued)

Financial assets (Continued)

Amortised cost

These assets arise principally from the provision of goods and services to customers (e.g. trade receivables), but also incorporate other types of financial assets where the objective is to hold these assets in order to collect contractual cash flows and the contractual cash flows are solely payments of principal and interest. They are initially recognised at fair value plus transaction costs that are directly attributable to their acquisition or issue, and are subsequently carried at amortised cost using the effective interest rate method, less provision for impairment. Interest income from these financial assets is included in interest income using the effective interest rate method.

Impairment provisions for trade receivables are recognised based on the simplified approach within SFRS(I) 9 using the provision matrix to determine the lifetime expected credit losses. For trade receivables, which are reported net, such provisions are recorded in a separate provision account with the loss being recognised within administrative expenses in the consolidated statement of comprehensive income. On confirmation that the trade receivable will not be collectable, the gross carrying value of the asset is written off against the associated provision.

Impairment provisions for other receivables is recognised based on a forward looking expected credit loss model. The methodology used to determine the amount of the provision is based on whether at each reporting date, there has been a significant increase in credit risk since initial recognition of the financial asset. For those where the credit risk has not increased significantly since initial recognition of the financial asset, twelve month expected credit losses along with gross interest income are recognised. For those for which credit risk has increased significantly, lifetime expected credit losses along with the gross interest income are recognised. For those that are determined to be credit impaired, lifetime expected credit losses along with interest income on a net basis are recognised.

The Group's financial assets measured at amortised cost comprise trade receivables, other receivables and prepayments (excluding advances to suppliers, value added tax and prepayments), cash and bank balances as well as fixed deposits in the statements of financial position.

Derecognition of financial assets

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019

2. Summary of significant accounting policies (Continued)

2.17 Financial instruments (Continued)

Financial liabilities and equity instruments

Classification as debt or equity

Financial liabilities and equity instruments issued by the Group are classified according to the substance of the contractual arrangements entered into 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 entity after deducting all of its liabilities. Equity instruments are recorded at the proceeds received, net of direct issuance costs. The Group classifies ordinary shares as equity instruments.

Financial liabilities

The Group classifies its financial liabilities as subsequently measured at amortised cost.

Trade and other payables

Trade and other payables (excluding contract liabilities) are initially measured at fair value, net of transaction costs, and are subsequently measured at amortised cost, where applicable, using the effective interest method.

Borrowings

Borrowings are initially measured at fair value, and are subsequently measured at amortised cost, using the effective interest method. Any difference between the proceeds (net of transaction costs) and the settlement or redemption of borrowings is recognised over the term of the borrowings in accordance with the Group's accounting policy for borrowing costs (see Note 2.9 above).

Financial guarantee contracts

The Company has issued corporate guarantees to banks for borrowings of certain subsidiaries and these guarantees qualify as financial guarantees because the Company is required to reimburse the banks if these subsidiaries breach any repayment term.

Financial guarantee contract liabilities are measured initially at their fair values, net of transaction costs. Financial guarantee contracts are subsequently measured at the higher of:

- a) premium received on initial recognition less the cumulative amount of income recognised in accordance with the principles of SFRS(I) 15; and
- b) the amount of loss provisions determined in accordance with SFRS(I) 9.

Derecognition of financial liabilities

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

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019

2. Summary of significant accounting policies (Continued)

2.18 Cash and cash equivalents

Cash and cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value. For the purpose of the consolidated statement of cash flows, cash and cash equivalents exclude any fixed deposits pledged.

2.19 Contingencies

A contingent liability is:

- (a) a possible obligation that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group; or
- (b) a present obligation that arises from past events but is not recognised because:
 - (i) it is not probable that an outflow of resources embodying economic benefits will be required to settle the obligation; or
 - (ii) the amount of the obligation cannot be measured with sufficient reliability.

A contingent asset is a possible asset that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group.

Contingencies are not recognised on the statements of financial position, except for contingent liabilities assumed in a business combination that are present obligations and for which the fair value can be reliably determined.

2.20 Dividends

Equity dividends are recognised when they become legally payable. Interim dividends are recorded in the financial year in which they are declared for payment. Final dividends are recorded in the financial year in which dividends are approved by shareholders.

2.21 Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the group of executive Directors and Chief Executive Officer who makes strategic decisions.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019

3. Critical accounting judgements and key sources of estimation uncertainty

In the application of the Group's accounting policies, which are described in Note 2 to the financial statements, management made judgements, estimates and assumptions about the carrying amounts of assets and liabilities that were not readily apparent from other sources. The estimates and associated assumptions were based on historical experience and other factors that were considered to be reasonable under the circumstances. Actual results may differ from these estimates.

These 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.

3.1 Critical judgements made in applying the entity's accounting policies

The following is the critical judgement, apart from those involving estimations (see below) that management has made in the process of applying the Group's accounting policies and which have a significant effect on the amounts recognised in the financial statements.

Determining the lease term and discount rates

The Group leases warehouse spaces, office and residential premises from external parties and related parties. Included in the lease arrangements, there are extension held and exercisable only by the Group. In determining the lease term, management considers the likelihood of either to exercise the extension option based on facts and circumstances that create an economic incentive to extend of lease.

Management has included potential cash outflows of RMB3,343,132 in the measurement of lease liabilities, as it is reasonably certain that the extension option will be exercised. The assessment on lease terms is reviewed at the end of each reporting period if there is a significant change in the Group's intentions, business plan or other circumstances unforeseen since it was first estimated.

The Group has determined the discount rate by reference to the respective lessee's incremental borrowing rate when the rate inherent in the lease is not readily determinable. The Group obtains the relevant market interest rate after considering the applicable geographical location where the lessee operates as well as the term of the lease. Management considers industry data available as well as any security available in order to adjust the market interest rate obtained from similar economic environment, term and value of the lease.

The weighted average incremental borrowing rate applied to lease liabilities was 5.01% per annum. Management has included the effect of discounting using the incremental borrowing rate in measuring the amount of lease liabilities on 1 January 2019 and as at 31 December 2019.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019

3. Critical accounting judgements and key sources of estimation uncertainty (Continued)

3.2 Key sources of estimation uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty as at the end of the financial year, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities and the reported amounts of revenue and expenses within the next financial year are discussed below.

(i) Loss allowance for impairment of trade receivables

Management determines expected credit loss for trade receivables by considering historical loss pattern of various customers in different geographical areas and forward-looking information, which is the key estimate in measuring expected credit loss. Notwithstanding the above, the Group evaluates the expected credit loss on customers in financial difficulties separately. The carrying amount of the Group's trade receivables as at 31 December 2019 was RMB163,353,899 (2018: RMB164,093,110).

(ii) Allowance for slow moving and obsolete inventories

Management reviews the Group's inventory levels in order to identify slow-moving and obsolete merchandise and identifies items of inventory which have a market price that is lower than its carrying amount. Management then estimates the amount of inventory loss as an allowance on inventory. Changes in demand levels, technological developments and pricing competition could affect the saleability and values of the inventory which could then consequentially impact the Group's results, cash flows and financial position. The carrying amount of the Group's inventories as at 31 December 2019 was RMB70,714,547 (2018: RMB82,163,735).

(iii) Recognition of deferred tax assets and liabilities

The Group recognises deferred tax assets for unutilised tax losses and other deductible temporary differences to the extent that it is probable that taxable profit will be available against which these tax benefits can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the timing and level of future taxable profits together with future tax planning strategies.

Deferred tax liabilities are recognised based on their best estimates of the likely taxes due. This includes the determination of estimated unremitted earnings for dividend distribution on which deferred tax liability is to be provided for. Where the final tax outcome of these matters is different from the amounts that were initially recognised, such differences will impact the income tax and deferred tax positions in the period in which such determination is made.

The carrying amounts of the Group's deferred tax assets and deferred tax liabilities as at 31 December 2019 were RMB4,190,899 and RMB1,000,000 (2018: RMB2,545,776 and RMB1,000,000) respectively.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019

4. Revenue

Disaggregation of revenue

The Group has disaggregated revenue into various categorical in the following table:

Segments	Rigid packaging		Group Flexible packaging		Total	
	2019	2018	2019	2018	2019	2018
	RMB	RMB	RMB	RMB	RMB	RMB
<i>Primary geographical markets</i>						
People's Republic of China ("PRC")	439,124,090	450,039,562	232,404,022	239,159,996	671,528,112	689,199,558
Australia	10,864,937	11,572,737	156,051	–	11,020,988	11,572,737
United States	1,205,885	1,219,576	3,503,434	3,680,678	4,709,319	4,900,254
Europe	3,400,774	3,041,938	–	189,158	3,400,774	3,231,096
Other regions	9,817,148	6,042,463	8,590,020	9,208,142	18,407,168	15,250,605
	464,412,834	471,916,276	244,653,527	252,237,974	709,066,361	724,154,250
<i>Type of customers</i>						
Corporate	464,412,834	471,916,276	244,653,527	252,237,974	709,066,361	724,154,250

The Group has derived the revenue from the transfer of goods at point in time.

5. Other income

	Group	
	2019 RMB	2018 RMB
Amortisation of deferred government subsidy related to assets*	1,064,449	915,430
Government subsidies related to expenditure	1,162,563	3,183,324
Interest income - bank deposits	603,460	452,603
Miscellaneous income**	906,314	775,345
Rental income - investment property	–	109,401
Rental income - office premises	82,920	214,867
Income from sales of raw materials	813,321	1,807,303
Service income	1,964,625	1,191,838
	6,597,652	8,650,111

* Various government subsidies have been received mainly from the PRC government for the Group's business conducted in those areas. There are no unfulfilled conditions or contingencies related to these subsidies.

** Miscellaneous income consisted of sale of samples and packing materials.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019

6. Finance costs

	Group	
	2019	2018
	RMB	RMB
Interest expenses:		
- bank borrowings	21,579,805	18,235,897
- lease liabilities (Note 25)	180,897	-
	21,760,702	18,235,897
Amount capitalised in property under development (Note 16)	(3,831,139)	-
	17,929,563	18,235,897

7. Profit/(Loss) before income tax

The above is arrived at after charging/(crediting):

	Group	
	2019	2018
	RMB	RMB
<u>Cost of sales</u>		
Cost of inventories recognised as an expense	561,406,117	586,928,072
Included in the above are:		
Direct labour costs		
- Direct wages	63,508,447	65,601,890
- Contributions to defined contribution plans	8,415,149	9,317,422
Depreciation of property, plant and equipment	56,346,548	53,724,741
Operating lease expenses – factory space	-	1,585,657
Amortisation of right-of-use assets	1,516,235	-
Allowance made for/(Reversal of) inventories obsolescence	21,076	(200,032)
<u>Distribution expenses</u>		
Advertisement and promotional expenses	135,420	24,734
Depreciation of property, plant and equipment	216,025	227,779
Entertainment expenses	2,779,183	2,863,732
Employee benefits expense		
- Salaries, bonuses and allowances	6,434,107	6,534,879
- Contributions to defined contribution plans	428,650	467,954
- Staff welfare	77,123	153,877
Lease expenses on low value and short term leases	163,043	-
Operating lease expenses	-	199,800
Transportation costs	27,436,073	27,544,757
Travelling and accommodation expenses	1,442,683	1,913,991
Upkeep of motor vehicles expenses	368,584	587,365

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019

7. Profit/(Loss) before income tax (Continued)

The above is arrived at after charging/(crediting): (Continued)

	Group	
	2019	2018
	RMB	RMB
<u>Administrative expenses</u>		
Reversal of loss allowance for trade receivables	(50,993)	(533,707)
Amortisation of land use rights	1,037,148	1,288,313
Amortisation of right-of-use assets	1,052,833	-
Audit fee		
- Auditors of the Company	484,210	470,548
- Other auditors (a member firm of BDO International Limited)	530,245	523,109
- Other auditors	36,077	34,283
Non-audit fee		
- Auditors of the Company	15,132	14,704
Bank charges	470,174	668,590
Depreciation of investment property	17,406	17,406
Depreciation of property, plant and equipment	5,625,249	4,921,371
Directors' remuneration ⁽¹⁾		
- Directors' fees	766,778	796,151
- Salaries, bonuses and allowances	5,941,424	7,599,274
- Contributions to defined contribution plans	105,040	175,170
Duty and tax	6,763,175	5,499,102
Employee benefits expense ⁽¹⁾		
- Salaries, bonuses and allowances	25,696,195	24,464,785
- Contributions to defined contribution plans	2,469,705	2,015,372
- Other related costs	1,035,319	1,736,714
Foreign exchange loss, net	2,694,306	1,259,209
Loss on disposal of property, plant and equipment	25,510	464,785
Property, plant and equipment written off	-	678,015
Office repairs and maintenance expenses	302,759	264,809
Operating lease expenses	-	1,101,713
R&D expenditure	15,520,498	16,323,279
Telephone and fax charges	1,044,942	1,084,326
Travelling and accommodation expenses	2,448,690	2,924,420

(1) The remuneration of Directors and key management personnel is disclosed in Note 36 to the financial statements.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019

8. Income tax credits

	Group	
	2019 RMB	2018 RMB
Current income tax		
- current financial year	1,274,666	899,707
Deferred tax		
- current financial year	(1,645,123)	(1,095,870)
	<u>(370,457)</u>	<u>(196,163)</u>

Subsidiaries of the Group which are incorporated in the PRC are subject to China income tax of 25% except for Foshan Southern Packaging Co., Ltd and Southern Packaging (Jiangsu) Co., Ltd which are awarded the status of a High Technology Enterprise and enjoy a concessionary tax rate of 15% on its profits up till the financial year ended 31 December 2019. Southern (HK) Packaging Company Limited, a subsidiary incorporated in Hong Kong is subject to Hong Kong income tax of 16.5% and the Company is subject to Singapore tax rate of 17%.

The income tax expense varies from the amount of income tax expense determined by applying the applicable income tax rate of 17% to profit/(loss) before income tax and resulting the following differences:

	Group	
	2019 RMB	2018 RMB
Profit/(Loss) before income tax	8,855,012	(2,421,118)
Applicable tax rate of 17% (2018: 17%)	1,505,352	(411,590)
Tax effect of expenses that are not deductible in determining taxable profit	2,088,684	2,259,888
Tax effect of income that are not taxable in determining taxable profit	(289,269)	(170,841)
Enhanced tax deductions	(3,388,128)	(1,790,724)
Effect of different tax rates of overseas operations	(287,096)	(82,896)
Income tax credits for the financial year	<u>(370,457)</u>	<u>(196,163)</u>

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019

9. Earnings per share

The calculation for basic earnings per share is based on the profit/(loss) for the financial year attributable to owners of the parent divided by the number of ordinary shares.

	Group	
	2019	2018
The calculation of basic earnings per share is based on:		
Profit/(Loss) for the financial year attributable to owners of the parent (RMB)	9,225,469	(2,224,955)
Number of ordinary shares	70,319,164	70,319,164
Earnings per share (RMB cents)		
- Basic earnings per share	13.12	(3.16)

As the Company has no dilutive potential ordinary shares, the diluted earnings per share is equivalent to basic earnings per share.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019

10. Property, plant and equipment

Group Cost	Buildings	Plant and machinery	Furniture, fixture and equipment	Motor vehicles	Leasehold improvements	Construction in progress	Total
	RMB	RMB	RMB	RMB	RMB	RMB	RMB
Balance as at 1 January 2019	285,041,319	487,885,316	228,940,660	13,445,751	357,009	22,632,254	1,088,302,309
Additions	-	6,843,185	14,849,870	-	-	17,606,653	39,299,708
Disposals	-	(11,002,589)	-	(158,553)	-	-	(11,161,142)
Reclassifications	-	19,446,171	4,137,933	-	-	(23,584,104)	-
Currency translation differences	-	-	2,435	-	7,986	-	10,421
Balance as at 31 December 2019	285,041,319	503,172,083	247,930,898	13,287,198	364,995	16,654,803	1,066,451,296
Accumulated depreciation							
Balance as at 1 January 2019	53,888,255	275,258,450	175,229,075	9,656,189	357,009	-	514,388,978
Depreciation for the financial year	14,209,910	27,981,495	19,085,950	910,467	-	-	62,187,822
Disposals	-	(8,283,901)	-	(150,625)	-	-	(8,434,526)
Currency translation differences	-	-	2,307	-	7,986	-	10,293
Balance as at 31 December 2019	68,098,165	294,956,044	194,317,332	10,416,031	364,995	-	568,152,567
Accumulated impairment loss							
Balance as at 1 January 2019 and 31 December 2019	-	182,482	28,244	-	-	-	210,726
Carrying amount							
Balance as at 31 December 2019	216,943,154	208,033,557	53,585,322	2,871,167	-	16,654,803	498,088,003

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019

10. Property, plant and equipment (Continued)

Group	Buildings RMB	Plant and machinery RMB	Furniture, fixture and equipment RMB	Motor vehicles RMB	Leasehold improvements RMB	Construction in progress RMB	Total RMB
Balance as at 1 January 2018	266,886,630	461,007,081	217,763,806	13,608,736	340,589	47,232,077	1,006,838,919
Additions	863,212	13,013,854	11,938,592	63,675	-	22,746,505	48,625,838
Disposals	-	(6,211,814)	-	(226,660)	-	-	(6,438,474)
Written off	-	(8,842,440)	(766,650)	-	-	-	(9,609,090)
Reclassifications	17,291,477	28,918,635	-	-	-	(46,210,112)	-
Transfer to property under development	-	-	-	-	-	(1,136,216)	(1,136,216)
Currency translation differences	-	-	4,912	-	16,420	-	21,332
Balance as at 31 December 2018	285,041,319	487,885,316	228,940,660	13,445,751	357,009	22,632,254	1,038,302,309
Accumulated depreciation							
Balance as at 1 January 2018	41,389,910	262,007,449	157,383,247	8,855,344	340,589	-	469,976,539
Depreciation for the financial year	12,498,345	26,817,432	18,541,942	1,016,172	-	-	58,873,891
Disposals	-	(5,336,144)	-	(215,327)	-	-	(5,551,471)
Written off	-	(8,230,287)	(700,788)	-	-	-	(8,931,075)
Currency translation differences	-	-	4,674	-	16,420	-	21,094
Balance as at 31 December 2018	53,888,255	275,258,450	175,229,075	9,656,189	357,009	-	514,388,978
Accumulated impairment loss							
Balance as at 1 January 2018	-	-	-	-	-	-	-
and 31 December 2018	-	182,482	28,244	-	-	-	210,726
Carrying amount							
Balance as at 31 December 2018	231,153,064	212,444,384	53,683,341	3,789,562	-	22,632,254	523,702,605

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019

10. Property, plant and equipment (Continued)

	Furniture, fixture and equipment RMB
Company	
Cost	
Balance as at 1 January 2019 and 31 December 2019	<u>28,074</u>
Accumulated depreciation	
Balance as at 1 January 2019 and 31 December 2019	<u>28,074</u>
Carrying amount	
Balance as at 31 December 2019	<u>–</u>
Cost	
Balance as at 1 January 2018 and 31 December 2018	<u>28,074</u>
Accumulated depreciation	
Balance as at 1 January 2018 and 31 December 2018	<u>28,074</u>
Carrying amount	
Balance as at 31 December 2018	<u>–</u>

Certain considerations related to purchase of property, plant and equipment were not paid as at end of each financial year. The table below shows the reconciliation to the consolidated statement of cash flows:

	Group	
	2019 RMB	2018 RMB
Additions to property, plant and equipment	39,299,708	48,625,838
Trade payables	<u>(4,337,737)</u>	<u>(25,137,649)</u>
Cash payments to acquire property, plant and equipment	<u>34,961,971</u>	<u>23,488,189</u>

The Group has pledged buildings and plant and machinery with carrying amounts of RMB118,054,785 (2018: RMB121,533,292) and RMB100,662,149 (2018: RMB88,599,071) respectively to secure banking facilities granted to the Group (Note 26).

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019

11. Investment property

	Group RMB
Cost	
Balance as at 1 January 2019 and 31 December 2019	732,859
Accumulated depreciation	
Balance as at 1 January 2019	297,710
Depreciation for the financial year	17,406
Balance as at 31 December 2019	315,116
Carrying amount	
Balance as at 31 December 2019	417,743
Cost	
Balance as at 1 January 2018 and 31 December 2018	732,859
Accumulated depreciation	
Balance as at 1 January 2018	280,304
Depreciation for the financial year	17,406
Balance as at 31 December 2018	297,710
Carrying amount	
Balance as at 31 December 2018	435,149

The investment property relates to a 308 sqm office premise located at No. 9 Foping Four Road, Sixth floor, Gui Cheng, Nanhai, Foshan City, Guangdong 528251, the PRC.

In the previous financial year, the Group's investment property is leased out under operating leases and generate rental income amounted to RMB109,401. Direct operating expenses (including repairs and maintenance) arising from the rental-generating investment property amounted to RMB19,386.

The Group's investment property has been pledged to secure banking facilities granted to the Group (Note 26).

Depreciation of investment property is included in "Administrative expenses" line item of profit or loss.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019

12. Investments in subsidiaries

	Company	
	2019 RMB	2018 RMB
Unquoted equity contribution/shares, at cost	456,236,365	456,236,365
Deemed investment arising from the issuance of financial guarantees	9,696,560	9,696,560
	465,932,925	465,932,925

The deemed investment pertains to the fair value of financial guarantee contracts in respect of corporate guarantees granted by the Company for bank loans obtained by certain subsidiaries (Note 26).

Details of the subsidiaries as at 31 December 2019 are as follows:

Name of subsidiary	Country of incorporation (or registration) and place of business	Effective equity interest held by the Group		Principal activities
		2019 %	2018 %	
Foshan Nanxin Packaging Co., Ltd. ⁽¹⁾	People's Republic of China	100	100	Trading and manufacturing of packaging products for foodstuff, medical and cosmetic industries and engaged in sub-contract processing business
Foshan Southern Packaging Co., Ltd. ⁽¹⁾	People's Republic of China	100	100	Trading and manufacturing of packaging products for foodstuff, medical and cosmetic products, and property development
Southern Packaging (Jiangsu) Co., Ltd. ⁽¹⁾	People's Republic of China	100	100	Trading and manufacturing of packaging products for foodstuff, medical and cosmetic products
Southern (HK) Packaging Company Limited ⁽²⁾	Hong Kong Special Administrative Region	100	100	Trading of packaging products for foodstuff, medical and cosmetic products

⁽¹⁾ Audited by BDO China Shu Lun Pan Certified Public Accountants LLP, a member firm of BDO International Limited.

⁽²⁾ Audited by BDO China Shu Lun Pan Certified Public Accountants LLP, a member firm of BDO International Limited for consolidation purpose.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019

12. Investments in subsidiaries (Continued)

Significant restrictions

As at 31 December 2019, cash and bank balances and fixed deposits amounted to RMB123,050,588 (2018: RMB66,561,679) held in the PRC are subject to local exchange control regulations. These regulations place restrictions on exporting capital out of the country other than through dividends and thus significantly affect the Company's ability to access or use assets, and settle liabilities, of the Group.

13. Land use rights

	Group RMB
Cost	
Balance as at 1 January 2019 and 31 December 2019	<u>52,322,992</u>
Accumulated amortisation	
Balance as at 1 January 2019	10,494,588
Amortisation for the financial year	<u>1,037,148</u>
Balance as at 31 December 2019	<u>11,531,736</u>
Carrying amount	
Balance as at 31 December 2019	<u>40,791,256</u>
Cost	
Balance as at 1 January 2018	70,325,827
Transfer to property under development (Note 16)	<u>(18,002,835)</u>
Balance as at 31 December 2018	<u>52,322,992</u>
Accumulated amortisation	
Balance as at 1 January 2018	11,276,690
Amortisation for the financial year	1,288,313
Transfer to property under development (Note 16)	<u>(2,070,415)</u>
Balance as at 31 December 2018	<u>10,494,588</u>
Carrying amount	
Balance as at 31 December 2018	<u>41,828,404</u>

Land use rights represent up-front payments to acquire long term interests in the usage of land in the PRC.

Land use rights are amortised on a straight-line basis over the lease term of 40 to 50 years (ranging between 1999 to 2064) as stated in the relevant land use right certificates granted for usage by the respective subsidiaries in the PRC.

The Group has pledged certain of its land use rights with carrying amount of RMB31,348,022 (2018: RMB41,205,430) to secure banking facilities granted to the Group (Note 26).

Amortisation expenses have been included in "Administrative expenses" line item of profit or loss.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019

14. Right-of-use assets

	Warehouse spaces RMB	Office premises RMB	Residential premises RMB	Total RMB
Group				
Cost				
Balance as at 1 January 2019				
- Adoption of SFRS(I) 16 (Note 2.1)	3,032,469	1,519,567	723,298	5,275,334
Currency translation difference	-	(10,445)	-	(10,445)
Balance as at 31 December 2019	3,032,469	1,509,122	723,298	5,264,889
Accumulated amortisation				
Balance as at 1 January 2019	-	-	-	-
Amortisation for the financial year	1,516,235	741,168	311,665	2,569,068
Currency translation difference	-	13,393	-	13,393
Balance as at 31 December 2019	1,516,235	754,561	311,665	2,582,461
Carrying amount				
Balance as at 31 December 2019	1,516,234	754,561	411,633	2,682,428

15. Deferred tax assets/(liabilities)

The following are the major deferred tax assets and liabilities recognised by the Group, and the movements thereon, during the current and prior financial years:

	Provisions RMB	Deferred government subsidies RMB	Undistributed earnings of subsidiaries RMB	Land use rights RMB	Tax losses RMB	Total RMB
Group						
Balance as at 1 January 2019	275,234	1,973,212	(1,000,000)	(2,389,862)	2,687,192	1,545,776
(Charged)/Credited to profit or loss	(15,165)	125,333	-	-	1,534,955	1,645,123
Balance as at 31 December 2019	260,069	2,098,545	(1,000,000)	(2,389,862)	4,222,147	3,190,899
Balance as at 1 January 2018	390,808	2,110,526	(1,000,000)	(2,421,367)	1,369,939	449,906
(Charged)/Credited to profit or loss	(115,574)	(137,314)	-	31,505	1,317,253	1,095,870
Balance as at 31 December 2018	275,234	1,973,212	(1,000,000)	(2,389,862)	2,687,192	1,545,776

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019

15. Deferred tax assets/(liabilities) (Continued)

Certain deferred tax assets and liabilities are offset in accordance with the accounting policy as stated in Note 2.10 to the financial statements.

Disclosed as:

	Group RMB
2019	
Deferred tax assets	4,190,899
Deferred tax liabilities	(1,000,000)
	<u>3,190,899</u>
2018	
Deferred tax assets	2,545,776
Deferred tax liabilities	(1,000,000)
	<u>1,545,776</u>

Unutilised tax losses

At the end of the financial year, the Group had unutilised tax losses of approximately RMB28,147,627 (2018: RMB17,914,613) respectively which are available for set-off against future taxable profits subject to the agreement by the tax authorities and provisions of tax legislations of the PRC. The expiry dates for tax losses arising in certain foreign tax jurisdictions are as follows:

Year incurred	Year of expiry	Group	
		2019 RMB	2018 RMB
2016	2026	9,132,927	9,132,927
2018	2028	8,781,686	8,781,686
2019	2029	10,233,014	–
		<u>28,147,627</u>	<u>17,914,613</u>

Undistributed profits

Deferred tax liabilities arising from the aggregate amount of temporary differences associated with undistributed earnings of certain subsidiaries for which is estimated by the management to be distributed in the future.

As at 31 December 2019, total unremitted earnings of certain subsidiaries in the PRC amounted to RMB117,657,861 (2018: RMB103,801,260). Management estimates that not more than 20% of these unremitted earnings will be distributed as dividends in the foreseeable future. Hence, as at 31 December 2019, a deferred tax liability of RMB1,000,000 (2018: RMB1,000,000) was recognised on the withholding tax and other taxation that would be payable. No deferred tax liability was recognised on unremitted earnings amounting to RMB94,126,000 (2018: RMB83,042,000) as the Group is in a position to control the dividend policies of these subsidiaries and it is probable that these earnings will not be distributed in the foreseeable future.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019

16. Property under development

	Group	
	2019 RMB	2018 RMB
Land use right (Note 13)	15,932,420	15,932,420
Development costs	150,932,001	49,193,137
Interest capitalised (Note 6)	3,831,139	–
	<u>170,695,560</u>	<u>65,125,557</u>

As at 31 December 2019, property under development amounted to RMB170,695,560 are expected to be recovered within its operating cycle. On completion, the properties will be transferred to properties held for sale.

During the financial year, the Group has pledged the land use right of Nanhai District of Foshan City, Guicheng Street, Sanshan Creative Industry Park, SS-D04 block (“Sanshan land use right”) to secure banking facilities granted to the Group (Note 26).

Contingent liability

Sanshan land use right

On 10 October 2012, the Group, via its subsidiary, Foshan Southern Packaging Co., Ltd (“FSP”) entered into an agreement with the Guangdong Foshan Municipal Bureau of Land Resources and Rural Planning Bureau (hereinafter referred to as “Bureau”) to acquire the Sanshan land use rights with an area of approximately 21,608 square metres at a sale price of RMB17.47 million. The period of the land use rights is 50 years.

According to the agreement, FSP is required to:

- by 8 November 2013, complete the design, submit construction report and related documents and commence official construction of property for industrial purposes; and
- by 8 November 2015, complete all construction of property and submit construction completion verification report and related documents for final acceptance.

It is stipulated in the agreement that if the lands are idle for two years and yet to commence construction, the Bureau has the rights to recover the land use rights without any compensation.

If FSP is not able to comply with the stipulated dates in the agreement or the agreed extended dates (be it the construction commencement date or construction completion date), it will need to pay to the Bureau 0.03% of the acquisition price per day of delay as liquidated damages.

According to a supplementary agreement signed between FSP and the Bureau on 6 December 2016, the date of commencement was changed to 18 October 2017 and the date of completion was changed to 18 October 2019.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019

16. Property under development (Continued)

Contingent liability (Continued)

Sanshan land use right (Continued)

On 25 January 2019, FSP had obtained the all key permits required to commence the construction and the entire construction process is estimated to take approximately 2.5 years.

Management has estimated the liquidated damages to be approximately RMB5.687 million (2018: RMB4.418 million). As at the date of the financial statements, no impairment loss on Sanshan land use right or provision for liquidated damages was recognised for the delay in commencement and the estimated date of completion of the project as the management is of the opinion that:

- Significant delays to the construction progress is due to inadequate infrastructure developed by the local authority at the construction site, which is beyond the control of management;
- Based on management's understanding of the past practices of the Bureau and authorities in Foshan, there is no historical instance where the Bureau and the authorities in Foshan have recovered land use rights granted previously or issued penalties on non-compliance of commencement and completion dates; and
- The Group has not received any correspondences from the authorities on the liquidated damages for non-compliance of the commencement deadline and the project has commenced during the financial year.

17. Inventories

	Group	
	2019	2018
	RMB	RMB
Raw materials and consumables	32,424,157	41,235,130
Work in progress	4,504,719	4,618,807
Finished goods	33,785,671	36,309,798
	70,714,547	82,163,735

During the financial year, the Group carried out a review of the realisable values of its inventories and the review led to the recognition of inventories obsolescence of RMB21,076 (2018: reversal of an allowance for inventories obsolescence of RMB200,032).

These amounts have been included in "cost of sales" in profit or loss.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019

18. Trade receivables

	Group	
	2019	2018
	RMB	RMB
Trade receivables		
- third parties	139,745,242	139,040,186
- a related party	844,424	2,364,477
	<u>140,589,666</u>	<u>141,404,663</u>
Bills receivables	22,922,284	23,373,622
	<u>163,511,950</u>	<u>164,778,285</u>
Less: Loss allowance on trade receivables – third parties	(158,051)	(685,175)
	<u>163,353,899</u>	<u>164,093,110</u>

The average credit period on sales of goods and provision of services is 60 days. No interest is charged on outstanding trade receivables. Bills receivables are unsecured, non-interest bearing and recoverable within 60 to 180 days.

Before accepting any new customer, the Group assesses the potential customer's credit quality and defines credit limit by each customer.

The Group has segregated its customers by geographical areas and considered the historical loss pattern for each geographical area and relevant forward looking information in order to determine the lifetime expected credit loss ("ECL") for its trade receivables.

As at end of each financial year, the range of expected loss rate for Group's non-credit impaired trade receivables are as follows:

	Group	
	2019	2018
By geographical areas		
PRC	0.05%-2.42%	0%-3.17%
Australia	0%	0%
United States	0%	0%
Europe	0%	0%
Other regions	0%	0%

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019

18. Trade receivables (Continued)

The exposure to credit risk for trade receivables based on geographical areas at the end of each financial year is as follows:

	Group	
	2019 RMB	2018 RMB
By geographical areas		
PRC	154,245,786	156,050,672
Australia	2,946,498	3,562,652
United States	560,677	855,185
Europe	593,871	781,682
Other regions	5,007,067	2,842,919
	163,353,899	164,093,110

The table below is an analysis of trade receivables and its loss allowance at the end of the financial year:

	Group	
	2019 RMB	2018 RMB
Not past due and not impaired	148,224,524	154,014,766
Past due but not impaired ⁽ⁱ⁾	15,129,375	10,078,344
Credit impaired receivables ⁽ⁱⁱ⁾	158,051	685,175
Less: Loss allowance for trade receivables	(158,051)	(685,175)
	163,353,899	164,093,110

(i) Aging of trade receivables which are past due but not impaired:

	Group	
	2019 RMB	2018 RMB
<90 days	11,808,156	6,412,933
91 to 180 days	2,741,438	3,543,164
181 to 365 days	388,693	13,235
>365 days	191,088	109,012
	15,129,375	10,078,344

Trade receivables that are neither past due nor impaired relate to customers that the Group has assessed to be creditworthy, based on the credit evaluation process performed by management.

The Group does not account ECL allowance arising from non-credit impaired customers as the amount is insignificant.

The Group does not hold any collateral over these balances.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019

18. Trade receivables (Continued)

(ii) Credit impaired receivables

Credit impaired receivables refer to those debtors that are in significant financial difficulties and have defaulted on payment.

Movements in the loss allowance for credit impaired trade receivables were as follows:

	Group	
	2019	2018
	RMB	RMB
Balance as at the beginning of the financial year	685,175	1,304,928
Reversal recognised in profit or loss	(50,993)	(533,707)
Written off during the financial year	(478,152)	–
Currency translation differences	2,021	(86,046)
Balance as at the end of the financial year	158,051	685,175

During the financial year, the Group recognised a reversal of loss allowance for trade receivables amounting to RMB50,993 (2018: RMB533,707) as there were collections received from the customers on which impairment was previously provided for.

The Group's trade receivables that are not denominated in the functional currencies of the respective entities are as follows:

	Group	
	2019	2018
	RMB	RMB
Denominated in:		
United States dollar	8,164,557	7,985,918

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FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019

19. Other receivables and prepayments

	Group		Company	
	2019 RMB	2018 RMB	2019 RMB	2018 RMB
Other receivables				
- third parties	6,417,186	4,717,963	15,521	15,019
- subsidiaries	-	-	1,290,103	1,290,103
	6,417,186	4,717,963	1,305,624	1,305,122
Advances to suppliers	17,017,520	16,356,744	-	-
Refundable deposits	3,469,495	3,172,199	-	-
Value added tax	12,793,056	4,468,720	-	-
Prepayments	281,809	173,854	-	-
Other receivables and prepayments	39,979,066	28,889,480	1,305,624	1,305,122
<i>Add:</i>				
Trade receivables	163,353,899	164,093,110	-	-
Cash and bank balances	125,817,400	66,475,324	1,021,790	1,437,190
Fixed deposits	2,994,039	12,252,170	-	-
<i>Less:</i>				
Advances to suppliers	(17,017,520)	(16,356,744)	-	-
Value added tax	(12,793,056)	(4,468,720)	-	-
Prepayments	(281,809)	(173,854)	-	-
Financial assets at amortised cost	302,052,019	250,710,766	2,327,414	2,742,312

Other receivables from third parties relate mainly advances to third parties and non-trade balances due from customers. These receivables are unsecured, non-interest bearing and repayable on demand.

The balances due from the subsidiaries are unsecured, non-interest bearing and repayable on demand.

The advances to suppliers are unsecured, non-interest bearing and are expected to be utilised within twelve months from the end of the financial year.

The Group's and Company's other receivables and prepayments (excluding advances to suppliers, value added taxes and prepayments) that are not denominated in the functional currencies of the respective entities are as follows:

	Group		Company	
	2019 RMB	2018 RMB	2019 RMB	2018 RMB
Denominated in:				
Singapore dollar	15,522	15,019	15,522	15,019

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20. Cash and cash equivalents

	Group		Company	
	2019 RMB	2018 RMB	2019 RMB	2018 RMB
Cash and bank balances	125,817,400	66,475,324	1,021,790	1,437,190
Fixed deposits (Note 21)	2,994,039	12,252,170	–	–
	128,811,439	78,727,494	1,021,790	1,437,190
Less: Fixed deposits pledged	(2,492,633)	(12,252,170)		
Cash and cash equivalents as shown in the consolidated statement of cash flows	126,318,806	66,475,324		

Cash at banks earns interest of 0.30% (2018: 0.30%) per annum.

The Group's cash and bank balances that are not denominated in the functional currencies of the respective entities are as follows:

	Group		Company	
	2019 RMB	2018 RMB	2019 RMB	2018 RMB
Denominated in:				
Euro	58,883	58,631	–	–
United States dollar	16,347,395	18,844,381	83,386	81,994
Hong Kong dollar	469,724	352,316	80,636	73,851
Singapore dollar	857,768	1,281,345	857,768	1,281,345
Japanese yen	2	2	–	–

21. Fixed deposits

	Group	
	2019 RMB	2018 RMB
Fixed deposits	501,406	–
Fixed deposits pledged	2,492,633	12,252,170
	2,994,039	12,252,170

The Group has pledged fixed deposits of RMB2,492,633 (2018: RMB12,252,170) to secure short-term borrowings. The fixed deposits earn interest of 1.1% (2018: 1.1%) per annum and for a tenure of approximately 60 days to 90 days.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019

22. Share capital

	Group and Company			
	2019	2018	2019	2018
	Number of ordinary shares		RMB	RMB
<u>Issued and paid up</u>				
Balance as at the beginning and end of the financial year	70,319,164	70,319,164	230,592,765	230,592,765

The Company has one class of ordinary shares which carries no right to fixed income. The holders of ordinary shares are entitled to receive dividends as and when declared by the Company. All ordinary shares have no par value and carry one vote per share without restriction.

23. Reserves

	Group	
	2019	2018
	RMB	RMB
Capital contribution	12,638,812	12,638,812
Statutory reserve	57,674,557	56,937,599
Foreign currency translation account	(1,749,709)	(2,274,444)
	<u>68,563,660</u>	<u>67,301,967</u>

Capital contribution

Capital contribution represents contribution from a controlling shareholder in connection with the acquisition of an associate.

In 2010, the capital contribution arising from the acquisition of an associate from a controlling shareholder represents the excess fair value of the net assets acquired over the consideration paid. The contribution is recorded as a capital contribution to the Group. The management has considered that it has been the shareholder's intention for the excess fair value to be a gift to the Group, and hence, management is satisfied that this excess fair value acquired represents a capital contribution to the Group by the controlling shareholder.

In 2011, the capital contribution arising from the sale of land by an associate to a controlling shareholder represents the excess of the consideration received over the fair value of the net assets disposed. The contribution is recorded as a capital contribution to the Group. The management has considered that it has been the shareholder's intention for the excess consideration to be a gift to the Group, and hence, management is satisfied that this excess consideration represents a capital contribution to the Group by the controlling shareholder.

Statutory reserve

In accordance with the relevant laws and regulations of the PRC, the subsidiaries established in the PRC are required to transfer 10% of its profits after income tax determined in accordance with the accounting regulations in the PRC to the statutory reserve until the reserve balance reaches 50% of the respective registered capital of the PRC subsidiaries. Such reserve may be used to reduce any losses incurred or for capitalisation as paid-up capital of the PRC subsidiaries. The statutory reserve is not available for distribution.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019

23. Reserves (Continued)

Foreign currency translation account

The foreign currency translation account comprises foreign exchange differences arising from the translation of the financial statements of the foreign operation of the Group whose functional currency is different from the Group's presentation currency.

24. Deferred government subsidies

	Group	
	2019	2018
	RMB	RMB
Balance as at the beginning of the financial year	13,154,740	14,070,170
Additions	1,900,000	–
Recognised as income during the financial year (Note 5)	(1,064,449)	(915,430)
Balance as at the end of the financial year	13,990,291	13,154,740
Portion classified as current liabilities	(1,138,959)	(915,430)
Portion classified as non-current liabilities	12,851,332	12,239,310

The Group received subsidies from the PRC government for the purchase of land use rights and plant and machinery. The subsidies are recognised over the duration of the useful lives of the land use rights and plant and machinery. The carrying amounts of the subsidies as at 31 December 2019 for the purchase of land use rights and plant and machinery were RMB5,764,646 (2018: RMB5,904,880) and RMB8,225,645 (2018: RMB7,249,859) respectively.

25. Lease liabilities

	Group
	2019
	RMB
Balance as at the beginning of the financial year	–
- Adoption of SFRS(I) 16 (Note 2.1)	5,275,334
Interest expense (Note 6)	180,897
Lease payments	
- Principal portion	(2,510,154)
- Interest portion	(180,897)
Currency translation differences	(23,536)
Balance as at the end of the financial year	2,741,644

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019

25. Lease liabilities (Continued)

The maturity analysis of lease liabilities of the Group at each reporting date are as follows:

	Group 2019 RMB
Contractual undiscounted cash flows	
- Not later than one year	2,726,362
- Later than one year but not later than five years	70,890
	<u>2,797,252</u>
Less: Future interest expense	(55,608)
Present value of lease liabilities	<u>2,741,644</u>
Presented on statements of financial position	
- Current	2,671,438
- Non-current	70,206
	<u>2,741,644</u>

The Group leases warehouse spaces, office and residential premises with fixed payments over the lease terms.

The Group's lease liabilities that are denominated in the functional currencies of the respective entities.

26. Borrowings

	Group	
	2019 RMB	2018 RMB
Bank borrowings		
- Bank A	204,323,840	82,589,600
- Bank B	37,190,250	62,845,000
- Bank C	20,000,000	11,000,000
- Bank D	23,404,053	36,745,340
- Bank E	2,104,509	378,333
- Bank F	-	16,171,750
- Bank G	24,000,619	31,153,928
- Bank H	25,000,000	25,000,000
- Bank I	10,704,013	6,831,368
	<u>346,727,284</u>	<u>272,715,319</u>
Third parties		
- Third party A	1,024,138	6,981,087
- Third party B	30,000,000	-
	<u>377,751,422</u>	<u>279,696,406</u>
Less: Amounts due for settlement within 12 months (shown under current liabilities)	<u>(240,493,856)</u>	<u>(254,929,404)</u>
Amounts due for settlement after 12 months	<u>137,257,566</u>	<u>24,767,002</u>

NOTES TO THE FINANCIAL STATEMENTS

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26. Borrowings (Continued)

The borrowings have average effective interest rates ranging from 3.97% to 6.65% (2018: 3.32% to 6.50%) per annum with maturity dates ranging from 14 January 2020 to 21 February 2024 (2018: 4 January 2019 to 30 September 2021).

Borrowings of RMB134.3 million (2018: RMB135.6 million) are arranged at fixed interest rates ranging from 4.50% to 6.175% (2018: 4.90% to 6.175%) per annum and expose the Group to fair value interest rate risk. Other borrowings of RMB243.5 million (2018: RMB144.1 million) are arranged at floating rates based on prevailing interbank rate in the PRC, thus exposing the Group to cash flow interest rate risk.

The Group has borrowings as follows:

- a) Borrowings obtained from Bank A amounting to RMB84.3 million (2018: RMB82.6 million) are secured by a charge over certain of the Group's property, plant and equipment, land use rights, investment property and supported by individual guarantee by a Director/shareholder of the Company and a subsidiary. The remaining borrowings obtained from Bank A amounting to RMB120 million (2018: Nil) are construction loans secured by a charge over certain of the Group's land use rights and supported by individual guarantee by a Director/shareholder of the Company.
- b) Borrowings obtained from Bank B are secured by a charge over certain of the Group's property, plant and equipment, land use rights, fixed deposits pledged and supported by a corporate guarantee by the Company.
- c) Borrowings obtained from Bank C are secured by a charge over certain of the Group's property, plant and equipment and supported by a corporate guarantee by the Company.
- d) Borrowings obtained from Bank D amounting to RMB12.2 million (2018: RMB18.6 million) are secured by a charge over certain of the Group's property, plant and equipment, fixed deposits pledged and supported by a corporate guarantee by the Company. The remaining borrowings obtained from Bank D amounting to RMB11.2 million (2018: RMB18.1 million) are secured by a charge over certain of the Group's property, plant and equipment and supported by a corporate guarantee by the Company.
- e) Borrowings obtained from Bank E are supported by a corporate guarantee by the Company.
- f) Borrowings obtained from Bank F are secured by a charge over the Group's fixed deposits pledged and supported by a corporate guarantee by the Company. The borrowings were fully repaid during the financial year.
- g) Borrowings obtained from Bank G amounting to RMB17.9 million (2018: RMB22.0 million) are secured by a charge over certain of the Group's property, plant and equipment, land use rights and supported by a corporate guarantee by the Company. The remaining borrowings obtained from the Bank G amounting to RMB6.1 million (2018: RMB9.2 million) are secured by a charge over certain of the Group's property, plant and equipment and supported by a corporate guarantee by the Company.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019

26. Borrowings (Continued)

- h) Borrowings obtained from Bank H are secured by charge over certain of the Group's property, plant and equipment, land use right and supported by a corporate guarantee by the Company.
- i) Borrowings obtained from Bank I are supported by a corporate guarantee by the Company and a subsidiary.
- j) Borrowing obtained from third party A is secured by a charge over certain of the Group's property, plant and equipment.
- k) Borrowing obtained from third party B is neither secured by charge over the Group's assets nor supported by corporate guarantee by the Company.

The Group's borrowings that are not denominated in the functional currencies of the respective entities are as follows:

	Group	
	2019	2018
	RMB	RMB
Denominated in:		
United States dollar	34,931,231	27,799,301
Japanese yen	2,182,009	–
	37,113,240	27,799,301

27. Trade payables

	Group	
	2019	2018
	RMB	RMB
Third parties	123,861,037	109,632,839

The average credit period on purchases of goods is 90 days (2018: 90 days).

The Group's trade payables that are not denominated in the functional currencies of the respective entities are as follows:

	Group	
	2019	2018
	RMB	RMB
Denominated in:		
Euro	–	171,801
United States dollar	8,012,521	9,449,867
	8,012,521	9,621,668

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28. Other payables

	Group		Company	
	2019 RMB	2018 RMB	2019 RMB	2018 RMB
Other payables				
- third parties	5,079,457	4,511,764	-	-
- a related party	2,332,575	2,332,575	-	-
- subsidiaries	-	-	31,598,198	22,876,525
	<u>7,412,032</u>	<u>6,844,339</u>	<u>31,598,198</u>	<u>22,876,525</u>
Financial guarantee contracts	-	-	11,656	343,041
Accrued expenses	21,923,833	17,957,323	2,748,967	2,224,672
Contract liabilities	8,632,769	7,098,798	-	-
Other payables	<u>37,968,634</u>	<u>31,900,460</u>	<u>34,358,821</u>	<u>25,444,238</u>
<i>Add:</i>				
Trade payables	123,861,037	109,632,839	-	-
Borrowings	377,751,422	279,696,406	-	-
Lease liabilities	2,741,644	-	-	-
<i>Less:</i>				
Contract liabilities	(8,632,769)	(7,098,798)	-	-
Financial liabilities at amortised cost	<u>533,689,968</u>	<u>414,130,907</u>	<u>34,358,821</u>	<u>25,444,238</u>

Other payables comprise principally amounts outstanding for non-trade purchases and operating costs.

The balance due to a related party, which is a company controlled by a Director of the Company, is unsecured, non-interest bearing and repayable on demand.

The balances due to subsidiaries are unsecured, non-interest bearing and repayable on demand.

Contract liabilities represent customer advances for goods ordered and were recognised as revenue when the Group performs under the contract within 12 months after the end of the financial year.

The Group's and Company's other payables that are not denominated in the functional currencies of the respective entities are as follows:

	Group		Company	
	2019 RMB	2018 RMB	2019 RMB	2018 RMB
Denominated in:				
Hong Kong dollar	-	-	30,504,106	22,496,875
Singapore dollar	<u>2,748,967</u>	<u>2,224,672</u>	<u>2,748,967</u>	<u>2,224,672</u>

NOTES TO THE FINANCIAL STATEMENTS

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29. Operating lease commitments

The Group as lessee

As at 31 December 2018, the Group has outstanding commitments under non-cancellable operating leases as follows:

	Group 2018 RMB
Not later than one year	<u>2,281,405</u>

The Group as lessor

The Group rents out its investment property and office premises in the PRC under operating leases. Property rental income earned during the financial year was RMB82,920 (2018: RMB324,268). Leases are negotiated and rentals are fixed for an average term of 1 year (2018: 1 to 3 years).

At the end of the financial year, the Group had contracted with tenants for the following future minimum lease payments:

	Group	
	2019 RMB	2018 RMB
Not later than one year	31,429	82,920
Later than one year and not later than five years	–	31,429
	<u>31,429</u>	<u>114,349</u>

30. Capital commitments

As at the end of the financial year, commitments in respect of capital expenditure are as follows:

	Group	
	2019 RMB	2018 RMB
Capital expenditure contracted but not provided for		
- Commitments for the acquisition of property, plant and equipment	<u>8,475,077</u>	<u>9,036,603</u>

31. Dividends

	Group and Company	
	2019 RMB	2018 RMB
Final tax-exempt dividends of S\$0.0036 per ordinary share in respect of the financial year ended 31 December 2017	<u>–</u>	<u>1,212,259</u>

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32. Segment information

The operating segments are identified on the basis of internal reports about components of the Group that are regularly reviewed by the Group's chief operating decision maker, in order to allocate resources to segments and to assess the segment performance.

The Group's reportable segments under SFRS(I) 8 are therefore as follows:

- Flexible packaging segment mainly manufactures plastic packaging bags with design supplied by the customers for the pharmaceutical industry, food and beverage industry and hygiene industry.
- Rigid packaging segment mainly manufactures polyethylene terephthalate ("PET") bottles together with printing of design onto the bottle for pharmaceutical industry, food and beverage industry and hygiene industry.
- Property development segment refers to business of developing property for future sale in the ordinary course of business.

The accounting policies of the reportable segments are the same as the Group's accounting policies described in Note 2.21. Segment revenue represents revenue generated from external customers. Segment results include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated items mainly comprise of corporate income and expenses. This is the measure reported to the chief operating decision maker for the purposes of resource allocation and assessment of segment performance.

For the purposes of monitoring segment performance and allocating resources between segments, the chief operating decision-maker monitors the tangible and financial assets attributable to each segment.

Segment assets

Other than cash and bank balances, fixed deposits, land use rights, value added tax, investment property, deferred tax assets and other non-operating assets, all assets are allocated to reportable segments. Assets used jointly by reportable segments are allocated on the basis of the revenues earned by individual reportable segments.

Segment liabilities

Other than borrowings (excluding construction loan), current income tax payable, deferred government subsidies, deferred tax liabilities and other non-operating liabilities, all liabilities are allocated to reportable segments. Liabilities related to reportable segments are allocated on the basis of the cost of sales of individual reportable segments.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019

32. Segment information (Continued)

Information regarding the Group's reportable segment is presented below.

Segment revenue, results and assets

Group	Rigid packaging		Flexible packaging		Property development		Consolidated	
	2019	2018	2019	2018	2019	2018	2019	2018
Revenue	RMB	RMB	RMB	RMB	RMB	RMB	RMB	RMB
External sales	464,412,834	471,916,276	244,653,527	252,237,974	-	-	709,066,361	724,154,250
Results								
Segment gross profits	100,273,440	90,647,178	47,386,804	46,579,000	-	-	147,660,244	137,226,178
Allocated expense	(77,913,283)	(78,161,396)	(39,772,162)	(41,312,245)	-	-	(117,685,445)	(119,473,641)
Allocated income	1,985,006	2,375,105	792,939	638,370	-	-	2,777,945	3,013,475
Segment result	24,345,163	14,860,887	8,407,581	5,905,125	-	-	32,752,744	20,766,012
Unallocated expenses							(9,787,876)	(10,587,869)
Unallocated income							3,216,247	5,184,033
Interest income							603,460	452,603
Interest expense							(17,929,563)	(18,235,897)
Profit/(Loss) before income tax							8,855,012	(2,421,118)
Income tax credits							370,457	196,163
Profit/(Loss) for the financial year attributable to owners of the parent							9,225,469	(2,224,955)
Assets								
Segment assets	531,856,303	553,082,334	229,308,640	238,918,383	170,695,560	65,125,557	931,860,503	857,126,274
Unallocated corporate assets							187,864,337	130,385,036
Consolidated total assets							1,119,724,840	987,511,310
Liabilities								
Segment liabilities	96,034,314	85,841,113	54,753,234	51,057,322	128,624,607	-	279,412,155	136,898,435
Unallocated corporate liabilities							283,596,945	303,647,339
Consolidated total liabilities							563,009,100	440,545,774

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32. Segment information (Continued)

Other segment information

	Additions to non-current assets		Depreciation and amortisation	
	2019	2018	2019	2018
	RMB	RMB	RMB	RMB
Rigid packaging	35,615,435	30,874,862	45,114,564	40,218,676
Flexible packaging	3,684,273	17,750,976	19,642,326	18,655,214
Unallocated segments	–	–	1,054,554	1,305,720
	<u>39,299,708</u>	<u>48,625,838</u>	<u>65,811,444</u>	<u>60,179,610</u>

Revenue from major products and services

Revenue from external customers is derived from the sale of packaging products.

Geographical information

The Group's operations, including the manufacturing of products are carried out in the PRC.

The Group's revenue from external customers and information about its segment assets (non-current assets excluding deferred tax assets) by geographical location of the customers and location of the assets are presented below:

	Revenue		Non-current assets	
	2019	2018	2019	2018
	RMB	RMB	RMB	RMB
PRC	671,528,112	689,199,558	541,979,430	565,966,158
Australia	11,020,988	11,572,737	–	–
United States	4,709,319	4,900,254	–	–
Europe	3,400,774	3,231,096	–	–
Other regions	18,407,168	15,250,605	–	–
	<u>709,066,361</u>	<u>724,154,250</u>	<u>541,979,430</u>	<u>565,966,158</u>

Information about major customers

Included in revenue arising from rigid packaging and flexible packaging are revenues of RMB178,900,007 (2018: RMB160,256,824) and RMB15,348,893 (2018: RMB10,542,699) respectively which arose from sales to the Group's largest customer.

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33. Financial instruments and financial risks

The management of the Group monitors and manages the financial risks relating to the operations of the Group to ensure appropriate measures are implemented in a timely and effective manner. These risks include market risk (including currency risk and interest rate risk), credit risk and liquidity risk.

The Board of Directors is responsible for setting the objectives and underlying principles of financial risk management for the Group. The Group's management then establishes the detailed policies such as authority levels, oversight responsibilities, risk identification and measurement and exposure limits, in accordance with the objectives and underlying principles approved by the Board of Directors.

There has been no changes to the Group's exposure to these financial risks or the manner in which they manage and measure the risk. Market risk exposures are measured using sensitivity analysis as indicated below.

(i) Credit risk

Credit risk refers to the risk that counterparty will default on its contractual obligations resulting in financial loss to the Group. The Group has adopted a policy of only dealing with creditworthy counterparties and obtaining customer advances where appropriate, as a means of mitigating the risk of financial loss from defaults.

Concentrations of credit risk exist when changes in economic, industry or geographic factors similarly affect groups of counterparties where aggregate credit exposure is significant in relation to the Group's total credit exposure.

As at the end of the financial year, approximately 19% (2018: 26%) of the Group's trade receivable from third parties were due from 3 (2018: 3) customers.

The Group's and Company's major classes of financial assets are cash and bank balances, fixed deposits and trade and other receivables. As the Group and the Company does not hold any collateral, the carrying amount of financial assets represents the maximum exposure to credit risk.

Further details of credit risk on trade receivables are disclosed in Note 18 to the financial statements.

Cash and bank balances (including fixed deposits)

The Group and Company held bank balances (including fixed deposits) of RMB128,811,439 and RMB1,021,790 respectively (2018: RMB78,727,494 and RMB1,437,190) as at 31 December 2019. The cash and bank balances (including fixed deposits) are held with bank and financial institution counterparties, which are rated Aa1 to Baa2, based on Moody's ratings.

At the end of each financial year, the Group and Company did not expect any credit losses from non-performance by the counterparties.

NOTES TO THE FINANCIAL STATEMENTS

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33. Financial instruments and financial risks (Continued)

(i) Credit risk (Continued)

Other receivables

For other receivables from third parties, management has taken into account of internal (i.e. collection history) and external information available, and determined that there is no significant loss allowances expected. For amount due from subsidiaries, Board of Directors has taken into account information that it has available internally about these subsidiaries' past, current and expected operating performance and cash flow position. Board of Directors monitors and assesses at the end of each financial year on any indicator of significant increase in credit risk on the amount due from the respective subsidiaries, by considering their performance ratio and any default in external debts. The risk of default is considered to be minimal as these subsidiaries have sufficient liquid assets and cash to repay their debts. Therefore, amount due from subsidiaries has been measured based on 12-month expected credit loss model and subject to immaterial credit loss.

Financial guarantees

The Company provides financial guarantees amounting to RMB140.1 million (2018: RMB148.2 million) in respect of banking facilities obtained by its subsidiaries.

The maximum amount that the Company could be forced to settle under the financial guarantee contract is approximately RMB129.7 million (2018: RMB137.9 million), if the full guaranteed amount is claimed by the counterparty to the guarantee. The earliest period that the guarantee could be called is within one year (2018: one year) from the end of the financial year. Based on management's assessment at the end of the financial year, the Group considers the 12-month expected credit loss to be immaterial.

(ii) Market risks

The Group's activities are exposed primarily to the financial risks of changes in foreign currency exchange rates and interest rates. Management monitors risks associated with changes in foreign currency exchange rates and interest rates and will consider appropriate measures should the need arises.

The Group does not hold or issue derivative financial instruments for speculative purposes.

There has been no significant change to the Group's exposure to market risk or the manner in which it manages and measures the risk. Market risk exposures are measured using sensitivity analysis indicated below.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019

33. Financial instruments and financial risks (Continued)

(ii) Market risks (Continued)

Foreign exchange risk

The Group transacts businesses in various currencies, including the Euro, United States dollar (“US\$”), Japanese yen (“JPY”), Hong Kong dollar (“HK\$”) and Singapore dollar (“S\$”), and therefore is exposed to foreign exchange risk.

At the end of the financial year, the carrying amounts of monetary assets and monetary liabilities denominated in currencies other than the respective group entities’ functional currencies are as follows:

	Assets		Liabilities	
	2019 RMB	2018 RMB	2019 RMB	2018 RMB
Group				
Euro	58,883	58,631	–	171,801
US\$	24,511,952	26,830,299	42,943,752	37,249,168
JPY	2	2	2,182,009	–
HK\$	469,724	352,316	–	–
S\$	873,290	1,296,364	2,748,968	2,224,672
Company				
US\$	83,386	81,994	–	–
HK\$	80,636	73,851	30,504,106	22,496,875
S\$	873,290	1,296,364	2,748,967	2,224,672

The Company has investments in foreign subsidiaries, whose net assets are exposed to foreign currency translation risk. The Group does not currently designate its foreign currency denominated debt as a hedging instrument for the purpose of hedging the translation of its foreign operations.

Foreign currency sensitivity

The following table details the sensitivity to a 5% (2018: 8%) increase in Euro, US\$, JPY, HK\$ and S\$ against RMB. 5% (2018: 8%) is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management’s assessment of the possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items which are denominated in Euro, US\$, JPY, HK\$ and S\$ and adjusts their translation at the end of the financial year for an instantaneous 5% (2018: 8%) change in foreign currency rates, with all variables held constant. The sensitivity analysis includes external loans as well as loans to foreign operation where they gave rise to an impact on the Group’s profit or loss.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019

33. Financial instruments and financial risks (Continued)

(ii) Market risks (Continued)

Foreign exchange risk (Continued)

Foreign currency sensitivity (Continued)

If the relevant foreign currency strengthens by 5% (2018: 8%) against RMB, profit/(loss) before income tax will increase/(decrease) by:

	Group		Company	
	2019 RMB	2018 RMB	2019 RMB	2018 RMB
Euro impact	2,944	(9,054)	-	-
US\$ impact	(921,590)	(833,510)	4,169	6,560
JPY impact	(109,100)	-	-	-
HK\$ impact	23,486	28,185	(1,521,174)	(1,793,842)
S\$ impact	(93,784)	(74,265)	(93,784)	(74,265)

If the relevant foreign currency weakens by 5% (2018: 8%) against RMB, the effect on profit/(loss) before income tax will be vice versa.

Interest rate risk

The Group's interest rate risks arise primarily from its cash and bank balances, fixed deposits and borrowings. The Group borrows at fixed and variable interest rates.

The interest rates and terms of repayment of the Group's interest-bearing financial instruments are disclosed in Notes 20, 21, 25 and 26 to the financial statements.

Interest rate sensitivity

The sensitivity analyses below have been determined based on the exposure to interest rates for the Group's borrowings at the end of the financial year and the stipulated change taking place at the beginning of the financial year and held constant throughout the financial year in the case of instruments that have variable interest rates. A 100 basis point (2018: 100 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 increase/decrease by an instantaneous 100 basis points (2018: 100 basis points) with all other variables held constant, the Group's profit/(loss) before income tax for the financial year ended 31 December 2019 would have been lower/higher by approximately RMB1,387,732 (2018: higher/lower by approximately RMB944,041) as a result of changes in interest rates on the variable rate borrowings.

No sensitivity analysis is prepared on the cash and bank balances and fixed deposits as the impact of the change in interest rates is not significant.

The Company's profit or loss is not affected by changes in interest rates as the Company does not have interest-bearing financial assets and liabilities.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019

33. Financial instruments and financial risks (Continued)

(iii) Liquidity risk

Liquidity risk refer to the risk in which the Group encounters difficulties in meeting its short-term obligations.

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

The following table details the remaining contractual maturity for financial liabilities. The table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earlier of the contractual date or when the Group and Company is expected to pay. The table includes both interest and principal cash flows.

	Weighted average effective interest rate %	On demand or within 1 year RMB	Within 2 to 5 years RMB	Total RMB
Group				
2019				
Trade payables	–	123,861,037	–	123,861,037
Other payables*	–	29,335,865	–	29,335,865
Borrowings, fixed interest rate	5.2	106,795,518	35,646,079	142,441,597
Borrowings, variable interest rate	5.8	149,738,642	126,410,784	276,149,426
Lease liabilities	5.0	2,726,362	70,890	2,797,252
		<u>412,457,424</u>	<u>162,127,753</u>	<u>574,585,177</u>
2018				
Trade payables	–	109,632,839	–	109,632,839
Other payables*	–	24,801,662	–	24,801,662
Borrowings, fixed interest rate	5.4	130,492,879	10,595,217	141,088,096
Borrowings, variable interest rate	5.4	133,968,575	15,627,045	149,595,620
		<u>398,895,955</u>	<u>26,222,262</u>	<u>425,118,217</u>
Company				
2019				
Other payables**	–	34,347,165	–	34,347,165
Financial guarantee contracts	–	129,689,363	–	129,689,363
		<u>164,036,528</u>	<u>–</u>	<u>164,036,528</u>
2018				
Other payables**	–	25,101,197	–	25,101,197
Financial guarantee contracts	–	137,854,482	–	137,854,482
		<u>162,955,679</u>	<u>–</u>	<u>162,955,679</u>

* Excluding contract liabilities.

** Excluding fair value of financial guarantee contracts.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019

34. Fair value of financial assets and financial liabilities

The carrying amounts of the Group and the Company's current financial assets and current financial liabilities approximate their respective fair values as at the end of the reporting period due to the relatively short-term maturity of these financial instruments.

The fair values of the Group's non-current financial liabilities in relation to borrowings approximates its carrying amount as these financial instruments are at floating interest rates. For the fixed rate non-current borrowings, the management estimates that the carrying amount approximate its fair value as the interest rate of the borrowings approximate the market lending rate for similar types of loan at the end of the reporting period. The carrying amount of current borrowings is a reasonable approximation of its fair value due to its relatively short-term maturity.

35. Capital management policies and objectives

The Group and the Company manage their capital to ensure that the Group and the Company are able to continue as going concern and maintain an optimal capital structure so as to maximise shareholders' values.

The capital structure of the Group consists of equity attributable to equity holders of the parent, comprising issued capital, reserves and retained earnings. The Group manages its capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Group may adjust the amount of dividend paid to shareholders, return capital to shareholders, issues new shares or sell assets to reduce debts.

The management monitors capital based on a gearing ratio. The gearing ratio is calculated as net debt divided by total capital. Net debt is calculated as trade and other payables, borrowings plus lease liabilities less cash and bank balances and fixed deposits. Total capital is calculated as equity attributable to owners of the parent plus net debt.

The management constantly reviews the capital structure to ensure that the Group and the Company are able to service any debt obligations (include principal repayment and interests) based on their operating cash flows. The Group's and the Company's overall strategy remains unchanged from the previous financial year.

	Group		Company	
	2019 RMB	2018 RMB	2019 RMB	2018 RMB
Trade payables	123,861,037	109,632,839	–	–
Other payables	37,968,634	31,900,460	34,358,821	25,444,238
Borrowings	377,751,422	279,696,406	–	–
Lease liabilities	2,741,644	–	–	–
Less: Cash and bank balances	(125,817,400)	(66,475,324)	(1,021,790)	(1,437,190)
Less: Fixed deposits	(2,994,039)	(12,252,170)	–	–
Net debt	413,511,298	342,502,211	33,337,031	24,007,048
Equity attributable to owners of the parent	556,715,740	546,965,536	433,901,518	443,230,999
Total capital	970,227,038	889,467,747	467,238,549	467,238,047
Gearing ratio	43%	39%	7%	5%

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019

35. Capital management policies and objectives (Continued)

Subsidiaries of the Group established in the PRC are required to contribute and maintain a non-distributable statutory reserve fund whose utilisation is subject to certain restrictions as set out in the relevant regulations in the PRC as disclosed in Note 23 to the financial statements.

In addition to the above, the Group and the Company are in compliance with all externally imposed capital requirements in relation to financial covenants on its borrowings for the financial years ended 31 December 2019 and 2018.

36. Significant related party transactions

During the financial year, in addition to the information disclosed elsewhere in these financial statements, the Group entities entered into the following transactions with related parties at rates and terms agreed between the parties:

	Group	
	2019 RMB	2018 RMB
<u>With certain Director of the Company</u>		
Rental expense	781,815	781,815
<u>With companies in which certain Director have control</u>		
Rental expense	1,832,940	1,832,940
Sale of goods	(2,652,619)	(6,054,634)

The outstanding balances as at 31 December with related parties are disclosed in Notes 18 and 28 to the financial statements and are unsecured, interest-free and repayable on demand, unless otherwise stated.

Certain borrowings (Note 26) are supported by individual guarantees given by a Director. No charge has been made for these guarantees.

Compensation of Directors and key management personnel

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

	Group	
	2019 RMB	2018 RMB
Directors		
- Short-term benefits	5,941,424	7,599,274
- Post-employment benefits	105,040	175,170
- Directors' fees	766,778	796,151
Other key management personnel		
- Short-term benefits	2,790,008	1,647,130
- Post-employment benefits	102,594	80,932
	9,705,844	10,298,657

The remuneration of Directors and key management personnel is determined by the Remuneration Committee having regard to the performance of individuals and market trends.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019

37. Event after reporting period

Amidst the current Coronavirus 2019 (“COVID-19”) situation, the local authority announced movement control orders to rein in the COVID-19 pandemic. This has caused significant disruptions to the business operations and heightened the level of uncertainty in the global economy.

On 13 February 2020, the Group announced approvals were granted from respective local authorities to resume its business operation of its factories located in Guangdong and Jiangsu. The factories located in Nanhai and Gaoming, Guangdong, the PRC had resumed production on 2 February 2020 and 5 February 2020 respectively, and the factory located in Jiangsu, the PRC had resumed production on 10 February 2020.

Furthermore, the construction of the Group’s development project in Sanshan was slightly delayed due to COVID-19 situation. As the current situation is still evolving, management was unable to reasonably ascertain the full effects of the outbreak on its business. The Group will continue to assess the situation to minimise impact to the business.

SHAREHOLDERS' INFORMATION

AS AT 13 MAY 2020

Issued and paid-up share capital	:	SGD45,735,199.216
Number of issued and paid-up shares excluding treasury shares and subsidiary holdings	:	70,319,164
Class of share	:	Ordinary shares fully paid
Voting rights	:	One vote for each ordinary share
Number and percentage of treasury shares and subsidiary holdings held	:	Nil

DISTRIBUTION OF SHAREHOLDINGS

SIZE OF SHAREHOLDINGS	NO. OF SHAREHOLDERS	%	NO. OF SHARES	%
1 - 99	18	3.74	522	0.00
100 - 1,000	102	21.20	47,015	0.07
1,001 - 10,000	240	49.90	886,415	1.26
10,001 - 1,000,000	116	24.12	7,060,963	10.04
1,000,001 and above	5	1.04	62,324,249	88.63
TOTAL	481	100.00	70,319,164	100.00

TWENTY LARGEST SHAREHOLDERS

NO.	NAME	NO. OF SHARES	%
1	PAN SHUN MING	27,384,697	38.94
2	MAI SHUYING	17,925,265	25.49
3	JEN SHEK CHUEN	9,464,787	13.46
4	BERRY PLASTICS ASIA PTE. LTD.	5,825,000	8.28
5	DB NOMINEES (SINGAPORE) PTE LTD	1,724,500	2.45
6	PAN ZHAOJIN	816,000	1.16
7	OCBC SECURITIES PRIVATE LIMITED	553,279	0.79
8	EST OF LIM TCHEN NAN, DEC'D	387,500	0.55
9	MAYBANK KIM ENG SECURITIES PTE. LTD.	353,806	0.50
10	DBS VICKERS SECURITIES (SINGAPORE) PTE LTD	349,909	0.50
11	HUANG BAOJIA	325,400	0.46
12	TAN SIEW KENG CHRISTINA	279,000	0.40
13	PU JINBO	182,954	0.26
14	HSU SHU HAO	168,000	0.24
15	ZHANG JIANLING	156,818	0.22
16	DONALD QUEK JEE KWEE	150,000	0.21
17	JENNIFER LEUNG MAN CHU	146,250	0.21
18	TTH DEVELOPMENT PTE LTD	100,000	0.14
19	WOO KIM FONG	97,452	0.14
20	LIM POH FAH VICTOR	92,703	0.13
	TOTAL	66,483,320	94.55

SHAREHOLDERS' INFORMATION

AS AT 13 MAY 2020

SUBSTANTIAL SHAREHOLDERS AS PER REGISTER OF SUBSTANTIAL SHAREHOLDERS AS AT 13 MAY 2020

NAME OF SUBSTANTIAL SHAREHOLDERS	DIRECT INTEREST		DEEMED INTEREST	
	NO. OF SHARES	%	NO. OF SHARES	%
Pan Shun Ming	27,384,697	38.94	17,925,265 ⁽¹⁾	25.49
Mai Shuying	17,925,265	25.49	27,384,697 ⁽²⁾	38.94
Pan Zhaojin	816,000	1.16	45,309,962 ⁽³⁾	64.43
Jen Shek Chuen	9,464,787	13.46	–	–
Berry Plastics Asia Pte. Ltd.	5,825,000	8.28	–	–

Notes :-

- (1) Deemed interest in the shares held by his spouse, Madam Mai Shuying.
- (2) Deemed interest in the shares held by her spouse, Mr Pan Shun Ming.
- (3) Deemed interest in the shares held by his parents, Mr Pan Shun Ming and Madam Mai Shuying.

To the best knowledge of the Company and based on the Shareholders' Information provided to the Company as at 13 May 2020, approximately 12.40% of the issued and paid-up ordinary shares of the Company are held in the hands of the public as defined in the Listing Manual of the Singapore Exchange Securities Trading Limited (the "**Listing Manual**"). Accordingly, the Company has complied with Rule 723 of the Listing Manual.

NOTICE OF ANNUAL GENERAL MEETING

NOTICE IS HEREBY GIVEN that the Annual General Meeting (“**AGM**”) of Southern Packaging Group Limited (the “**Company**”) will be held by way of electronic means on Monday, 29 June 2020 at 12 p.m. (Singapore time), to transact the following businesses:

ORDINARY BUSINESS:

1. To receive and adopt the Audited Financial Statements for the financial year ended 31 December 2019 and the Directors’ Statement together with the Auditors’ Report. **Resolution 1**
2. To declare a first and final one-tier tax exempt dividend of 0.25 Singapore cents per ordinary share for the year ended 31 December 2019. **Resolution 2**
(Explanatory Note 1)
3. To approve the payment of Directors’ fees of S\$148,376 for the financial year ended 31 December 2019. (2018: S\$162,160) **Resolution 3**
4. To re-elect Pan Shun Ming who is retiring by rotation pursuant to Article 91 of the Company’s Constitution and being eligible, offers himself for re-election. **Resolution 4**
(Explanatory Note 2)
5. To re-elect Chung Tang Fong who is retiring by rotation pursuant to Article 91 of the Company’s Constitution and being eligible, offers himself for re-election. **Resolution 5**
(Explanatory Note 2)
6. To re-appoint Messrs BDO LLP as the auditors of the Company and to authorise the Directors to fix their remuneration. **Resolution 6**

SPECIAL BUSINESS:

To consider and, if thought fit, to pass, with or without modifications, the following as ordinary resolution:

7. **Ordinary Resolution: Authority to allot and issue shares** **Resolution 7**

That, pursuant to Section 161 of the Companies Act (Chapter 50) and Rule 806(2) of the Listing Manual of the Singapore Exchange Securities Trading Limited (“**SGX-ST**”), authority be and is hereby given to the Directors of the Company to:-

- (a) (i) issue shares in the Company (“**Shares**”) whether by way of rights, bonus or otherwise; and/or
- (ii) make or grant offers, agreements or options (collectively, “**Instruments**”) that might or would require shares to be issued, including but not limited to the creation and issue of (as well as adjustments to) warrants, debentures or other instruments convertible into Shares,

at any time and upon such terms and conditions and for such purposes and to such persons as the Directors may in their absolute discretion deem fit; and

NOTICE OF ANNUAL GENERAL MEETING

- (b) (notwithstanding the authority conferred by this Resolution may have ceased to be in force) issue shares in pursuance of any Instrument made or granted by the Directors while this Resolution was in force,

provided that:

- (1) the aggregate number of Shares to be issued pursuant to this Resolution (including shares to be issued in pursuance of Instruments made or granted pursuant to this Resolution) does not exceed fifty per cent (50%) of the Company's total number of issued Shares (excluding treasury shares and subsidiary holdings) (as calculated in accordance with sub-paragraph (2) below), of which the aggregate number of Shares to be issued other than on a *pro-rata* basis to shareholders of the Company (including Shares to be issued in pursuance of Instruments made or granted pursuant to this Resolution) does not exceed twenty per cent (20%) of the Company's total number of issued Shares (excluding treasury shares and subsidiary holdings) (as calculated in accordance with sub-paragraph (2) below).
- (2) (subject to such manner of calculation as may be prescribed by the SGX-ST) for the purpose of determining the aggregate number of shares that may be issued under sub-paragraph (1) above, the total number of issued Shares (excluding treasury shares and subsidiary holdings) is based on the Company's total number of issued Shares (excluding treasury shares and subsidiary holdings) at the time this Resolution is passed, after adjusting for:
- (i) new Shares arising from the conversion or exercise of any convertible securities;
 - (ii) new shares arising from exercising share options or vesting of share awards, provided the share options or awards were granted in compliance with the Listing Manual of the SGX-ST; and
 - (iii) any subsequent bonus issue or consolidation or subdivision of Shares,

provided further that adjustments in accordance with sub-paragraphs (2)(i) and (ii) above are only to be made in respect of new Shares arising from convertible securities, share options and share awards which were issued and outstanding or subsisting at the time of the passing of this Resolution;

- (3) in exercising the authority conferred by this Resolution, the Company shall comply with the provisions of the Listing Manual of the SGX-ST for the time being in force (unless such compliance has been waived by the SGX-ST) and the Constitution for the time being of the Company; and

NOTICE OF ANNUAL GENERAL MEETING

- (4) (unless revoked or varied by the Company in general meeting) the authority conferred by this Resolution shall continue in force until the conclusion of the next annual general meeting (“AGM”) of the Company or the date by which the next AGM of the Company is required by law to be held, whichever is the earlier.”

(Explanatory Note 3)

8. To transact any other business which may be transacted at an AGM.

By Order of the Board

Pan Shun Ming
Executive Chairman and CEO
5 June 2020

Explanatory Notes:-

1. Resolution 2

To approve the first and final dividend. The Share Transfer Books and Register of Members of the Company will be closed on 13 July 2020 for the purpose of determining the entitlement of shareholders of the Company to the first and final dividend. Duly completed registrable transfers of ordinary shares of the Company received up to 5.00 p.m. on 10 July 2020 will be entitled to the first and final dividend. If approved at the AGM, the first and final dividend will be paid on 24 July 2020.

2. Resolutions 4 and 5

Mr Pan will, upon his re-election, remain as Executive Chairman and Chief Executive Officer of the Company.

Dr Chung will, upon his re-election, remain as member of Audit, Nominating and Remuneration Committees. The Board considers him to be independent for the purpose of Rule 704(8) of the Listing Manual of the SGX-ST.

Detailed information of Mr Pan and Dr Chung can be found under “Board of Directors”, “Corporate Governance Report” and “Additional information on Directors Seeking Re-Election” sections in the Company’s Annual Report 2019.

3. Resolution 7

This Ordinary Resolution, if passed, will authorise and empower the Directors of the Company from the date of the AGM to issue shares and to make or grant instruments (such as warrants or debentures) convertible into shares, and to issue shares in pursuance of such instruments, without seeking any further approval from shareholders in general meeting but within the limitation imposed by this Resolution, for such purposes as the Directors may consider would be in the best interests of the Company. The aggregate number of shares (including shares to be made in pursuance of Instruments made or granted pursuant to this Resolution) to be allotted and issued would not exceed 50% of the total number of issued shares (excluding treasury shares and subsidiary holdings) at the time this resolution is passed, of which the total number of shares that may be issued other than on a pro-rata basis to shareholders shall not exceed 20% of the total number of issued shares (excluding treasury shares and subsidiary holdings) at the time the resolution is passed. This authority will, unless revoked or varied at a general meeting, expire at the next AGM of the Company.

NOTICE OF ANNUAL GENERAL MEETING

Notes:

1. The AGM is being convened, and will be held, by way of electronic means pursuant to the Covid-19 (Temporary Measures) (Alternative Arrangements for Meetings for Companies, Variable Capital Companies, Business Trusts, Unit Trusts and Debenture Holders) Order 2020. The Annual Report, Notice of AGM (“**Notice**”) and proxy form will be sent to members solely by electronic means via publication on the Company’s website at URL <http://www.southern-packaging.com/en/about.aspx> and at the SGX website at URL <https://www.sgx.com/securities/company-announcements>. Printed copies of these documents will not be despatched to members.
 2. Alternative arrangements relating to attendance at the AGM via electronic means (including arrangements by which the AGM can be electronically accessed via “live” audio-visual webcast (“**LIVE WEBCAST**”) or “live” audio-only stream (“**LIVE AUDIO STREAM**”), submission of questions in advance of the AGM, addressing of substantial and relevant questions at the AGM and voting by appointing the Chairman of the AGM as proxy, are set out in the accompanying Company’s announcement dated 5 June 2020. This announcement may be accessed at the Company’s website at URL <http://www.southern-packaging.com/en/about.aspx> and at the SGX website at URL <https://www.sgx.com/securities/company-announcements>.
 3. **Due to the current Covid-19 restriction orders in Singapore, a member will not be able to attend the AGM in person. A member will also not be able to vote online on the resolutions to be tabled for approval at the AGM. A member (whether individual or corporate) must appoint the Chairman of the AGM as his/her/its proxy to attend, speak and vote on his/her/its behalf at the AGM if such member wishes to exercise his/her/its voting rights at the AGM. The accompanying proxy form for the AGM may be accessed at the Company’s website at URL <http://www.southern-packaging.com/en/about.aspx> and at the SGX website at URL <https://www.sgx.com/securities/company-announcements>.**
 4. Where a member (whether individual or corporate) appoints the Chairman of the AGM as his/her/its proxy, he/she/it must give specific instructions as to voting, or abstentions from voting, in respect of a resolution in the form of proxy, failing which the appointment of the Chairman of the AGM as proxy for that resolution will be treated as invalid.
 5. The Chairman of the AGM, as proxy, need not be a member of the Company.
 6. The instrument appointing the Chairman of the AGM as proxy must be submitted in the following manner:
 - a) if submitted by post, be lodged at the office of the Company’s Share Registrar, Boardroom Corporate & Advisory Services Pte. Ltd., at 50 Raffles Place, #32-01, Singapore Land Tower, Singapore 048623; or
 - b) if submitted electronically, be submitted via email to the Company’s Share Registrar at srs.teamd@boardroomlimited.comin either case, not less than forty-eight (48) hours before the time appointed for holding the AGM.
- A member who wishes to submit an instrument of proxy must first download, complete and sign the proxy form, before submitting it by post to the address provided above, or before sending it by email to the email address provided above.
- In view of the current Covid-19 situation and the related safe distancing measures which may make it difficult for members to submit completed proxy forms by post, members are strongly encouraged to submit completed proxy forms electronically via email.**
7. The instrument appointing the Chairman of AGM as proxy must be under the hand of the appointor or of his/her attorney duly authorised in writing. Where the instrument appointing the Chairman of the AGM as proxy is executed by a corporation, it must be executed either under its common seal or under the hand of its attorney duly authorised or its authorised officer or in such a manner as appropriate under applicable laws, failing which the instrument may be treated as invalid.
 8. Where an instrument appointing the Chairman of AGM as proxy is signed on behalf of the appointor by an attorney, the power of attorney or a duly certified copy thereof must (failing previous registration with the Company) be lodged with the instrument of proxy, failing which the instrument may be treated as invalid.
 9. In the case of members whose Shares are entered against their names in the Depository Register, the Company may reject any instrument appointing the Chairman of the AGM as proxy lodged if such members are not shown to have Shares entered against their names in the Depository Register, as at seventy-two (72) hours before the time appointed for holding the AGM as certified by The Central Depository (Pte) Limited to the Company.
 10. For investors who have used their CPF monies (“**CPF Investor**”) and/or SRS monies (“**SRS Investor**”) (as may be applicable) to buy shares, and wish to appoint the Chairman of the AGM as proxy should approach their respective CPF Agent Banks or SRS Operators to submit their votes at least seven (7) working days before the AGM. For investors who hold shares through relevant intermediaries (as defined in Section 181 of the Companies Act, Chapter 50) should approach their respective relevant intermediaries as soon as possible to specify voting instructions.

NOTICE OF ANNUAL GENERAL MEETING

PERSONAL DATA PRIVACY

By (a) submitting a proxy form appointing the Chairman of the AGM to attend, speak and vote at the AGM and/or any adjournment thereof or (b) submitting any question prior to the AGM or (c) submitting the pre-registration form in accordance with this Notice, a member of the Company (i) agrees that the member will indemnify the Company in respect of any penalties, liabilities, claims, demands, losses and damages as a result of the member's breach of warranty; and (ii) consents to the collection, use and disclosure of the member's personal data by the Company (or its agents or service providers) for the purposes of (collectively, the "**Purposes**"):

- I. the processing and administration by the Company (or its agents or service providers) of proxy forms appointing the Chairman of the AGM as proxy for the AGM (including any adjournment thereof);
- II. processing the pre-registration forms for purposes of granting access to members for the LIVE WEBCAST or LIVE AUDIO STREAM and providing viewers with any technical assistance, where necessary;
- III. addressing selected substantive questions from members received during the AGM;
- IV. the preparation and compilation of the attendance lists, minutes and other documents relating to the AGM (including any adjournment thereof); and
- V. enabling the Company (or its agents or service providers) to comply with any applicable laws, listing rules, regulations and/or guidelines.

The member's personal data may be disclosed or transferred by the Company to its subsidiaries, its share registrar and/or other agents or bodies for any of the Purposes, and retained for such period as may be necessary for the Company's verification and record purposes.

ADDITIONAL INFORMATION ON DIRECTORS SEEKING RE-ELECTION

Pursuant to Rule 720(6) of the SGX-ST Listing Manual, the additional information as set out in Appendix 7.4.1 to the SGX-ST Listing Manual relating to the retiring Directors who are submitting themselves for re-election is disclosed below and to be read in conjunction with their respective biographies under the section entitled “Board of Directors” in the Annual Report 2019:

Name of Person	Pan Shun Ming	Chung Tang Fong
Date of Appointment	30 December 2003	2 May 2014
Date of last re-appointment	28 April 2017	26 April 2018
Age	63	67
Country of principal residence	China	Singapore
The Board’s comments on this re-appointment	The re-election of Mr Pan was recommended by the Nominating Committee and the Board has accepted the recommendation, after taking into consideration his overall contribution and performance.	The re-election of Dr Chung was recommended by the Nominating Committee and the Board has accepted the recommendation, after taking into consideration his independence, overall contribution and performance.
Whether appointment is executive, and if so, the area of responsibility	Executive. He is responsible for the Groups’ overall business strategies	Non-Executive
Job Title (e.g. Lead ID, AC Chairman, AC Member etc.)	Executive Chairman and Chief Executive Officer	Independent Director, Member of Audit, Remuneration and Nominating Committees
Professional Qualifications	Diploma in Executive Master of Business Administration from Hongkong International Business College	<ul style="list-style-type: none"> • Bachelor of Arts from Ottawa University • Master of Business from Curtin University • Master in Public Administration & Management from National University of Singapore • Doctor of Business Administration from Victoria University • Post-Doctoral Professional Studies with Harper Adams University • Research Scholar with the School of Economics at Peking University • Fellow of the Chartered Management Institute, UK • Fellow of the Australian Institute of Management, Victoria, Australia • Fellow of the Royal Society of Arts, UK

ADDITIONAL INFORMATION ON DIRECTORS SEEKING RE-ELECTION

Name of Person	Pan Shun Ming	Chung Tang Fong
Any relationship (including immediate family relationships) with any existing director, existing executive officer, the issuer and/or substantial shareholder of the listed issuer or of any of its principal subsidiaries	Mr Pan is a substantial shareholder of the Company. He is spouse of Madam Mai Shuying (Chief Financial Officer and substantial shareholder of the Company) and parent of Pan Zhaojin (Vice President (Property Development) and substantial shareholder of the Company)	None
Conflict of interests (including any competing business)	No	No
Working experience and occupation(s) during the past 10 years	He has more than 30 years of experience in the packaging industry	Dr Chung is an active community leader. He is appointed as a Licensed Solemniser cum Deputy Registrar of Marriages, Vice Chairman of Jurong-Clementi Town Council and Chairman of its Tenders and Contracts Committee, Vice Chairman of Bukit Batok Citizens' Consultative Committee in Singapore. He is elected as Chairman of NUS Lee Kuan Yew School of Public Policy Mandarin Alumni. Dr Chung also a Board Member of Keming Primary School Advisory Committee and Honorary President of the Singapore Chung Hwa Medical Institution. He was appointed as Deputy Chief Representative of MMD Group of Companies in Shanghai representative office and a District Councillor of South West CDC for more than a decade.
Undertaking has been submitted to the listed issuer in the form of Appendix 7.7 under Rule 720(1)	Yes	Yes
Shareholding interest in the listed issuer and its subsidiaries	Direct interest in 27,384,697 shares of the Company Deemed interest in 17,925,265 shares held by his spouse, Madam Mai Shuying	Nil

ADDITIONAL INFORMATION ON DIRECTORS SEEKING RE-ELECTION

Name of Person	Pan Shun Ming	Chung Tang Fong
<p>Other Principal Commitments Including Directorships:</p> <p>Past (for the last 5 years)</p>	<p><u>Directorships:</u> Nil</p> <p><u>Other Principal Commitment:</u> Nil</p>	<p><u>Directorships:</u></p> <ul style="list-style-type: none"> ● Chewathai Company Limited ● Ace Achieve Infocom Limited <p><u>Other Principal Commitment:</u> Nil</p>
<p>Present</p>	<p><u>Directorships:</u></p> <ul style="list-style-type: none"> ● Foshan Energetic Film Co., Ltd ● Foshan Jia Xun Real Estate Co., Ltd ● Guangdong Donald Food Co., Ltd ● Guangdong Xinghua Health Drinks Co., Ltd ● Energetic Holdings Limited ● Striving Asset Management Co., Ltd ● Foshan Jia Bang Real Estate Co., Ltd ● Thrive United Holdings Ltd ● Cappella Holding Pte. Ltd ● Foshan Jia Yu Corporate Advisory Co., Ltd ● Nanhai 4 Pte. Ltd ● NH Assets Pte. Ltd ● Shan Shine Asset Management Co., Ltd ● Stable Growth Investment Co., Ltd ● Foshan Shan Shine Corporate Advisory Co., Ltd ● Foshan Ying Feng Real Estate Co, Ltd <p><u>Subsidiaries of Company</u></p> <ul style="list-style-type: none"> ● Foshan Nanxin Packaging Co., Ltd ● Foshan Southern Packaging Co., Ltd ● Southern Packaging (Jiangsu) Co., Ltd ● Southern (HK) Packaging Co., Ltd 	<p><u>Directorships:</u></p> <ul style="list-style-type: none"> ● Xi-Hong Enterprise Pte. Ltd.

ADDITIONAL INFORMATION ON DIRECTORS SEEKING RE-ELECTION

Name of Person	Pan Shun Ming	Chung Tang Fong
	<u>Other Principal Commitment:</u> Nil	<u>Other Principal Commitment:</u> <ul style="list-style-type: none"> • Licensed Solemniser cum Deputy Registrar of Marriages • Vice Chairman of Jurong-Clementi Town Council and Chairman of its Tenders and Contracts Committee. • Board Member of Keming Primary School Advisory Committee • Honorary President of the Singapore Chung Hwa Medical Institution. • Vice Chairman of Bukit Batok Citizens' Consultative Committee • Chairman of NUS Lee Kuan Yew School of Public Policy Mandarin Alumni
(a) Whether at any time during the last 10 years, an application or a petition under any bankruptcy law of any jurisdiction was filed against him or against a partnership of which he was a partner at the time when he was a partner or at any time within 2 years from the date he ceased to be a partner?	No	No
(b) Whether at any time during the last 10 years, an application or a petition under any law of any jurisdiction was filed against an entity (not being a partnership) of which he was a director or an equivalent person or a key executive, at the time when he was a director or an equivalent person or a key executive of that entity or at any time within 2 years from the date he ceased to be a director or an equivalent person or a key executive of that entity, for the winding up or dissolution of that entity or, where that entity is the trustee of a business trust, that business trust, on the ground of insolvency?	No	No
(c) Whether there is any unsatisfied judgment against him?	No	No

ADDITIONAL INFORMATION ON DIRECTORS SEEKING RE-ELECTION

Name of Person	Pan Shun Ming	Chung Tang Fong
(d) Whether he has ever been convicted of any offence, in Singapore or elsewhere, involving fraud or dishonesty which is punishable with imprisonment, or has been the subject of any criminal proceedings (including any pending criminal proceedings of which he is aware) for such purpose?	No	No
(e) Whether he has ever been convicted of any offence, in Singapore or elsewhere, involving a breach of any law or regulatory requirement that relates to the securities or futures industry in Singapore or elsewhere, or has been the subject of any criminal proceedings (including any pending criminal proceedings of which he is aware) for such breach?	No	No
(f) Whether at any time during the last 10 years, judgment has been entered against him in any civil proceedings in Singapore or elsewhere involving a breach of any law or regulatory requirement that relates to the securities or futures industry in Singapore or elsewhere, or a finding of fraud, misrepresentation or dishonesty on his part, or he has been the subject of any civil proceedings (including any pending civil proceedings of which he is aware) involving an allegation of fraud, misrepresentation or dishonesty on his part?	No	No
(g) Whether he has ever been convicted in Singapore or elsewhere of any offence in connection with the formation or management of any entity or business trust?	No	No
(h) Whether he has ever been disqualified from acting as a director or an equivalent person of any entity (including the trustee of a business trust), or from taking part directly or indirectly in the management of any entity or business trust?	No	No

ADDITIONAL INFORMATION ON DIRECTORS SEEKING RE-ELECTION

Name of Person	Pan Shun Ming	Chung Tang Fong
(i) Whether he has ever been the subject of any order, judgment or ruling of any court, tribunal or governmental body, permanently or temporarily enjoining him from engaging in any type of business practice or activity?	No	No
(j) Whether he has ever, to his knowledge, been concerned with the management or conduct, in Singapore or elsewhere, of the affairs of :- (i) any corporation which has been investigated for a breach of any law or regulatory requirement governing corporations in Singapore or elsewhere; or (ii) any entity (not being a corporation) which has been investigated for a breach of any law or regulatory requirement governing such entities in Singapore or elsewhere; or (iii) any business trust which has been investigated for a breach of any law or regulatory requirement governing business trusts in Singapore or elsewhere; or (iv) any entity or business trust which has been investigated for a breach of any law or regulatory requirement that relates to the securities or futures industry in Singapore or elsewhere, in connection with any matter occurring or arising during that period when he was so concerned with the entity or business trust?	No No No No	No No No No
(k) Whether he has been the subject of any current or past investigation or disciplinary proceedings, or has been reprimanded or issued any warning, by the Monetary Authority of Singapore or any other regulatory authority, exchange, professional body or government agency, whether in Singapore or elsewhere?	No	No

SOUTHERN PACKAGING GROUP LIMITED

(Incorporated in the Republic of Singapore)
(Company Registration Number: 200313312N)

ANNUAL GENERAL MEETING PROXY FORM

Important:

1. The Annual General Meeting (“AGM”) is being convened, and will be held, by way of electronic means pursuant to Covid-19 (Temporary Measures) (Alternative Arrangements for Meetings for Companies, Variable Capital Companies, Business Trusts, Unit Trusts and Debenture Holders) Order 2020.
2. Alternative arrangements relating to attendance at the AGM via electronic means (including arrangements by which the AGM can be electronically accessed via “live” audio-visual webcast or “live” audio-only stream), submission of questions in advance of the AGM, addressing of substantial and relevant questions at the AGM and voting by appointing the Chairman of the AGM as proxy, are set out in the Notice of AGM and the accompanying Company’s announcement dated 5 June 2020 (“AGM Alternative Arrangements Announcement”).
3. The AGM Alternative Arrangements Announcement, notice of AGM and this proxy form have been made available at the SGX website at URL <https://www.sgx.com/securities/company-announcements> and the Company’s website at <http://www.southern-packaging.com/en/about.aspx>. Printed copies of the notice of AGM and proxy form will not be sent to members.
4. Due to the current Covid-19 restriction orders in Singapore, a member will not be able to attend the AGM in person. A member will also not be able to vote online on the resolutions to be tabled for approval at the AGM. A member (whether individual or corporate) must appoint the Chairman of the AGM as his/her/its proxy to attend, speak and vote on his/her/its behalf at the AGM if such member wishes to exercise his/her/its voting rights at the AGM.
5. This proxy form is not valid for use by CPF/SRS investors and shall be ineffective for all intents and purposes if used or purported to be used by them. CPF/SRS investors who wish to appoint the Chairman of the AGM as proxy should approach their respective CPF Agent Bank and SRS Operators to submit their votes at least seven (7) working days before this AGM.

I/We, _____ (name) _____ (NRIC/Passport/Company Registration No.)

of _____ (address)

being a member/members of **SOUTHERN PACKAGING GROUP LIMITED** (the “Company”), hereby appoint Chairman of the AGM, as my/our proxy to attend, speak and to vote for me/us on my/our behalf at the AGM to be held by way of electronic means on Monday, 29 June 2020 at 12 p.m. (Singapore time) and at any adjournment thereof. I/We direct the Chairman of the AGM, being my/our proxy, to vote for or against, or to abstain from voting on the Resolutions to be proposed at the AGM as indicated hereunder.

Ordinary	ORDINARY BUSINESS	No. of votes FOR*	No. of votes AGAINST*	No. of votes Abstain*
Resolution 1	Adoption of the Audited Financial Statements for the financial year ended 31 December 2019 and the Directors’ Statement together with the Auditors’ Report			
Resolution 2	Declaration of First and Final Dividend			
Resolution 3	Approval of Directors’ fees of S\$148,376 for the financial year ended 31 December 2019			
Resolution 4	Re-election of Mr Pan Shun Ming as Director			
Resolution 5	Re-election of Mr Chung Tang Fong as Director			
Resolution 6	Re-appointment of Messrs BDO LLP as auditors and authorisation to the Directors to fix their remuneration			
Ordinary	SPECIAL BUSINESS			
Resolution 7	Authority to allot and issue shares			

Note:

- * Voting will be conducted by poll. If you wish the Chairman of the AGM as your proxy to cast all your votes “For” or “Against” the relevant resolution, please indicate with “X” within the relevant box provided. Alternatively, please indicate the number of votes “For” or “Against” in the “For” or “Against” box in respect of that resolution. If you wish the Chairman of the AGM as your proxy to abstain from voting on a resolution, please indicate with “X” in the “Abstain” box for a particular resolution. Alternatively, please indicate the number of votes that the Chairman of the AGM as your proxy is directed to abstain from voting in the “Abstain” box for a particular resolution. In the absence of specific directions in respect of a resolution, the appointment of the Chairman of the AGM as your proxy for that resolution will be treated as invalid.

Dated this _____ day of _____ 2020

Total Number of Shares held (Note 1)

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Signature(s) or Common Seal of Members

IMPORTANT: PLEASE READ NOTES OVERLEAF



NOTES:

1. Please insert the total number of Shares held by you. If you have shares entered against your name in the Depository Register (maintained by The Central Depository (Pte) Limited), you should insert that number of shares. If you have shares registered in your name in the Register of Members of the Company (maintained by or on behalf of the Company), you should insert that number of shares. If you have shares entered against your name in the Depository Register and shares registered in your name in the Register of Members, you should insert the aggregate number of shares. If no number is inserted, this form of proxy will be deemed to relate to all the shares held by you.
2. **Due to the current Covid-19 restriction orders in Singapore, a member will not be able to attend the AGM in person. A member will also not be able to vote online on the resolutions to be tabled for approval at the AGM. A member (whether individual or corporate) must appoint the Chairman of the AGM as his/her/its proxy to attend, speak and vote on his/her/its behalf at the AGM if such member wishes to exercise his/her/its voting rights at the AGM. This proxy form may be accessed at the Company's website at URL <http://www.southern-packaging.com/en/about.aspx> and at the SGX website at URL <https://www.sgx.com/securities/company-announcements>.**
3. Where a member (whether individual or corporate) appoints the Chairman of the AGM as his/her/its proxy, he/she/it must give specific instructions as to voting, or abstentions from voting, in respect of a resolution in the form of proxy, failing which the appointment of the Chairman of the AGM as proxy for that resolution will be treated as invalid.
4. The Chairman of the AGM, as proxy, need not be a member of the Company.
5. The instrument appointing the Chairman of the AGM as proxy must be submitted in the following manner:
 - (a) if submitted by post, be lodged at the office of the Company's Share Registrar, Boardroom Corporate & Advisory Services Pte. Ltd., at 50 Raffles Place, #32-01, Singapore Land Tower, Singapore 048623; or
 - (b) if submitted electronically, be submitted via email to the Company's Share Registrar at srs.teamd@boardroomlimited.com,in either case, not less than forty-eight (48) hours before the time appointed for holding the AGM.

A member who wishes to submit an instrument of proxy must first download, complete and sign the proxy form, before submitting it by post to the address provided above, or before sending it by email to the email address provided above.

In view of the current Covid-19 situation and the related safe distancing measures which may make it difficult for members to submit completed proxy forms by post, members are strongly encouraged to submit completed proxy forms electronically via email.

6. The instrument appointing the Chairman of AGM as proxy must be under the hand of the appointor or of his/her attorney duly authorised in writing. Where the instrument appointing the Chairman of the AGM as proxy is executed by a corporation, it must be executed either under its common seal or under the hand of its attorney duly authorised or its authorised officer or in such a manner as appropriate under applicable laws, failing which the instrument may be treated as invalid.
7. Where an instrument appointing the Chairman of AGM as proxy is signed on behalf of the appointor by an attorney, the power of attorney or a duly certified copy thereof must (failing previous registration with the Company) be lodged with the instrument of proxy, failing which the instrument may be treated as invalid.
8. For investors who have used their CPF monies ("CPF Investor") and/or SRS monies ("SRS Investor") (as may be applicable) to buy shares, this proxy form is not valid for their use and shall be ineffective for all intents and purpose if used or purported to be used by them. CPF or SRS investors who wish to appoint the Chairman of the AGM as proxy should approach their respective CPF Agent Banks or SRS Operators to submit their votes at least seven (7) working days before the AGM. For investors who hold shares through relevant intermediaries (as defined in Section 181 of the Companies Act, Chapter 50) should approach their respective relevant intermediaries as soon as possible to specify voting instructions.
9. The Company shall be entitled to reject the instrument appointing the Chairman of the AGM as proxy if it is incomplete, improperly completed, illegible or where the true intentions of the appointor are not ascertainable from the instructions of the appointor specified in the instrument appointing the Chairman of the AGM as proxy (including any related attachment). In addition, in the case of a member whose Shares are entered against his/her name in the Depository Register, the Company may reject any instrument appointing the Chairman of the AGM as proxy lodged if such members are not shown to have Shares entered against his/her name in the Depository Register at seventy-two (72) hours before the time appointed for holding the AGM, as certified by The Central Depository (Pte) Limited to the Company.

Personal Data Privacy:

By submitting an instrument appointing the Chairman as proxy, the member accepts and agrees to the personal data privacy terms set out in the Notice of Annual General Meeting dated 5 June 2020.

CORPORATE INFORMATION

BOARD OF DIRECTORS

Pan Shun Ming
(Executive Chairman and Chief Executive Officer)

Chen Xiang Zhi
(Executive Director and Vice Chairman)

Yeung Koon Sang @ David Yeung
(Lead Independent Director)

Chung Tang Fong
(Independent Director)

Chia Chor Leong
(Independent Director)

AUDIT COMMITTEE

Yeung Koon Sang @ David Yeung (Chairman)
Chung Tang Fong
Chia Chor Leong

REMUNERATION COMMITTEE

Yeung Koon Sang @ David Yeung (Chairman)
Chung Tang Fong
Chia Chor Leong

NOMINATING COMMITTEE

Chia Chor Leong (Chairman)
Yeung Koon Sang @ David Yeung
Chung Tang Fong

COMPANY SECRETARIES

Kong Wei Fung
Cheok Hui Yee

REGISTERED OFFICE

80 Robinson Road
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Singapore 068898
Website: www.southern-packaging.com
T: +65 6236 3333
F: +65 6236 4399

SHARE REGISTRAR

Boardroom Corporate & Advisory Services Pte. Ltd.
50 Raffles Place
#32-01 Singapore Land Tower
Singapore 048623
T: +65 6536 5355
F: +65 6438 8710

INDEPENDENT AUDITOR

BDO LLP
Public Accountants and Chartered Accountants
600 North Bridge Road
#23-01 Parkview Square
Singapore 188778
Partner-in-charge: William Ng Wee Liang
(Appointed since the financial year ended
31 December 2019)

PRINCIPAL BANKERS

Agricultural Bank of China (Nanhai Pingzhou SubBranch)
Bank of China Limited (Nanhai Sub-Branch)
Hang Seng Bank (China) Limited (Foshan SubBranch)



南方包装集团有限公司
Southern Packaging Group Limited

Co. Reg. No.: 200313312N
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Singapore 068898

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